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BY

ALLEN RIPLEY FOOTE

TAKOMA PARK, DISTRICT OF COLUMBIA

...AUTHOR OF...

A DISCUSSION OF THE ECONOMIC PRINCIPLES INVOLVED IN "THE LAW OF INCORPORATED COMPANIES OPERATING UNDER MUNICIPAL FRANCHISES."

Member of the American Economic Association and of the American Academy of Political and Social Science.

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PREFACE.

This volume is composed of three discussions of questions involved in the ownership, operation and proper regulation of municipal public service industries, which were written for different occasions. They are reproduced without change and are published with a full index, to facilitate an examination of the elements of the subject and a study of it in its entirety. The discussions are printed in the inverse order of their date, because a system of regulation is proposed in the discussion last written which it is believed will effect a satisfactory settlement of all questions pertaining to public service industries. By presenting this system first, busy men can get at the definite proposals at once. If not completely satisfied that the proposed system is right and just, they can make a critical examination of the whole subject and a thorough study of the principles upon which the proposals are based.

In these discussions the problem of the ownership, operation and proper regulation of public service industries is studied from the standpoints of taxpayers, users of the services, employes and investors. It is believed that the system proposed will operate with

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equal justice for each class in interest, and that the longer it is operated the more serviceable and better appreciated it will become. With the view of rendering the system permanent, provisions are contained in it for the readjustment, at short periods, by clearly defined procedure, of every feature that may be affected by any change of general conditions, so that all cause of friction may be avoided or overcome.

The system proposed gives full application to the best features found in propositions made by municipal ownership advocates, and also by those who urge the advantages of private ownership and operation. The adoption of this system in its entirety will place every public and private interest involved on a stable basis that will endure, because it will be satisfactory. Every dispute between municipalities and public service corporations can be settled to the satisfaction of both parties by the adoption of the proposals herein contained, provided each party is willing to make a settlement that will conform with the requirements of correct economic principles uninfluenced by any other consideration. For this reason it is hoped that this presentation of the subject will be carefully studied by taxpayers, users of public services, town and city officials, members of councils and state legislatures; also by managers, directors and investors in public service industries, and by all who desire to promote the public welfare.

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PART I.

"NO POLITICS BUT THE CITY'S GOOD."

HOW SHOULD THE FRANCHISE QUESTION BE SETTLED?

A PAPER SUBMITTED TO THE

LEAGUE OF ILLINOIS MUNICIPALITIES,

March 1, 1899.

CITY OF PEORIA.

MAYOR'S OFFICE.

PEORIA, ILL., Feb. 15, 1899.

JOHN WARNER, Mayor.

ALLEN R. FOOTE, ESQ., Takoma Park, D. C.

Dear Sir:—A call has been issued for a State Convention of Illinois Municipalities to be held in this city, March 1 and 2, 1899.

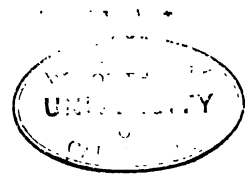
You are undoubtedly informed as to the great public interest that has been aroused in this State by enactments relating to franchises for street railroad corporations, which the people believe to be subversive of their interests. This makes the question of proper franchises for public service corporations an issue of vital importance, and one that will inevitably receive much attention at the convention of municipalities about to be held in this city.

Knowing that you have been writing upon this subject for several years, and believing you to have studied it closely, I invite you to attend this convention, and to prepare a paper to be read before it in which you will give your views as to how this franchise question should be settled.

Kindly advise me at your earliest convenience if it will be possible for you to prepare a paper on the subject indicated, and to read it before the convention. You will recognize the necessity of having a program for the convention completed at an early date.

Yours truly,

JOHN WARNER, Mayor.



"NO POLITICS, BUT THE CITY'S GOOD."

HOW SHOULD THE FRANCHISE QUESTION BE SETTLED?

INTRODUCTORY.

Mr. Chairman and Gentlemen:

The question you have requested me to answer presents the most difficult and important problem now demanding solution by the citizens of this Republic. The widest known and ablest citizen might well shrink from the task of formulating the answer for which you ask. I certainly should hesitate to undertake it did I not feel that ten years devoted to a special study of the subject has been a fitting preparation for the responsibility I have assumed in accepting your invitation. But once before have I felt the inspiration of a responsibility commensurate with the one

I have accepted in responding to your request to give my views on this question in behalf of what I believe to be right and just; for the good of the people and the welfare of our country.

In 1861 I marched from my home in response to the call of our President, to do my duty in defending the unity and honor of our government, the rights and liberties of our people. One year afterward, standing under the folds of the flag presented to my regiment by the patriotic women of 1861, I was struck down by a Confederate's bullet. Fourteen out of sixteen of the color guard were killed or wounded within as many minutes that day. But the flag did not fall. Every man who wore the Blue did his full duty, "That a government of the people, by the people, for the people, might not perish."

I was of the men who stood behind the guns in 1861; I am of the people now. For ten years I have devoted myself to the study and discussion of the economic principles involved in the organization and control of public service industries, a subject which I find has now reached an acute development in your state. I have cultivated the acquaintance and closely studied the views of the managers of every class of public service corporations. I count among my warmest friends the ablest advocates of the municipal ownership and operation of one or of all public service in-

dustries, and have diligently analyzed their demands. Overshadowing both of these, I have listened with acute sympathy to the voices of a great, generous, honest-hearted people, who desire only justice for themselves and who desire to be just to others.

You have called me to perform a duty. You demand of me the truth. I will declare the truth to you, as God has given me the ability to see and understand it. In doing this my words seek audience with your reason; they seek companionship with your hearts. If they satisfy your reason and your hearts that what I say is right and just my duty will be well done. The duty of and responsibility for right action will then be yours.

How should the franchise question be settled? But one answer can ring true to the sense of right and justice in the reason and heart of every citizen of this Republic who is worthy of its citizenship. That answer is, *"It should be settled in the interests of all the people."* Until it is so settled agitation must continue. God's justice is done only when man is just to man: Any law or ordinance enacted to secure a settlement of this question that is unjust to the people cannot endure. All the forces of the universe that make for the good are pledged to its destruction. This question will never be permanently settled until it is settled right. To accomplish this purpose

we must first determine what the requirements of justice for the people are, and then we must find a way to apply these requirements to existing conditions. To this task I ask your attention.

THE RIGHT TO OWN PROPERTY.

The civilization of to-day is founded upon a conception of justice which declares it to be the natural right of every laborer to own and use as he pleases the products of his labor. This right is limited by the requirement that it shall be exercised with a due regard for the same right recognized as the natural endowment of others. In isolation there is no property. As soon as a man becomes associated with others his natural right to do as he pleases with his own is limited by that fundamental principle of justice which requires that all property shall be owned and used with a due regard for the rights of others. Rights to the ownership and use of property are not vested rights. They are not absolute. They are granted and they may be taken away by the consent of society.

Property consists of all things of value which may be owned by the consent of society, given in recognition of its conception of the principles of justice. The *property quality* of things of value is created by the consent of society practically expressed through

the means it employs to protect owners in their right to possess, enjoy and dispose of that which they may legally own. I say *consent of society*, because nothing can be property to the ownership of which there is no social consent or contract to protect anyone's right to possession.

In a final analysis it is clear that the ownership of all property is protected, not by constitutions, enacted laws or decisions of courts, but by the consent of society based on its conception of the principles of justice. Changes in the popular conception of these principles or of their proper application may cause existing constitutions, enacted laws and court decisions to be out of harmony with the popular belief as to what is right and just. Such a change will cause existing conditions to appear unjust. A people stung to the quick by a sense of injustice, believing themselves to be the victims of unjust laws, and unjust administration of laws, or of an unjust commercial or financial system, will not cease to agitate, nor ought they to cease to agitate, until every change is made that is necessary to bring the constitutions and enacted laws upon which court decisions are based into strict accord with their new conceptions of the principles of justice.

Whenever a change occurs in the popular conception of the principles of justice, either through a clearer

understanding, or a misunderstanding, of moral and economic principles, and by reason of such changes society withdraws its consent to the ownership of any class of property, all chattels so affected cease to be property. Against the destruction of property by such a cause owners of property have no defense. When a popular verdict has once declared that the right to own a certain thing or class of things shall cease, owners of such property are powerless to maintain their right to ownership even though they defend it with their lives. This fact has an epoch-making illustration in the destruction of property in slaves caused by the withdrawal of the consent of society to such ownership, voiced and made effective by the emancipation proclamation issued by Abraham Lincoln, President of the United States.

The natural law of justice is superior to all constitutions, all enacted laws, all court decisions. It is uninfluenced by the opinions or actions of men. It is the only changeless standard. Rightly understood and obeyed it will enable all men to realize the highest attainable good. Disregarded, whether through ignorance or through immoral intelligence, it punishes with imperious and merciless exactness every step of divergence from a true course.

Justice is born of honesty and intelligence. *Honesty* is the image of God in the hearts of men. *Intelli-*

gence is a condition of mind. Granting the presence of honesty in the hearts of the people, their lack of knowledge as to how to obtain justice and their failure to secure justice must be ascribed to defective intelligence. Honesty will cause all men to wish to do justice, but they will measure the justice they do by their own standard, by their conception or understanding of the principles of justice. If the action of any man is unjust, the cause of his unjust acts must be deficient honesty or defective intelligence. As all whose opinions are worthy of consideration claim to be honest, attention need be directed only to their mental development.

The avowed object of all honest anarchists, socialists and of reformers of every class of opinion and degree of intelligence; the dreams of all philosophers, poets and prophets; the teachings of every professor of ethics, morals and economics; the mission of all government and of all religion, is to cause men everywhere to understand the principles of justice, to incarnate them in their lives as a controlling motive power and force, inspiring and guiding their actions. All efforts of the past; all agitations of to-day; all hopes of the future having as an objective point the betterment of the whole of humanity, morally, socially and economically, may be rightly interpreted as a demand for justice. Every cause for discontent, every political issue,

will be permanently and satisfactorily removed or settled when all men recognize that so far as human agencies in the affairs of men are operative justice is done. A review of the past, a careful summary of the present aspect of all public questions, teaches and emphasizes one fact: *The people want justice but they do not know how to obtain it.*

Reference is made to these fundamental principles because, while there is an apparent agreement regarding them, there is a wide disagreement as to what is necessary to be done to secure justice for the people. This fact proves that there is either a failure in honesty of purpose in seeking a correct application of these principles, or that there is a failure in intellectual ability to discern when a proposed policy involves a departure from them.

All honest persons are in unquestioned agreement on the following propositions:

1. A laborer is entitled to own and enjoy, unmolested, the products of his labor, the wages he receives, the profit he may save.

2. A person who permits others to use his property is entitled to the return of his property unimpaired and payment for its use.

3. Private property shall not be taken for the benefit of public or private users by authority of law, without fair compensation paid to its owners.

4. Public and private users of a service rendered by others have no right to use such service without paying a reasonable price therefor.

This is justice. Any attack upon these propositions, whether ignorantly or intelligently made, is an attack upon the right to own property. It is an attack upon the freedom of laborers. It must be so recognized and dealt with by all honest persons before the people can obtain justice.

When a laborer cannot own and enjoy, unmolested, the profits of his labor, he cannot avoid becoming a slave. His only means of releasing himself from the law of necessity is his power to labor and the right to own the products of his labor.

When the popular conception of justice is so imperfect as to permit one to use the property of another without paying for its use, all inducement to produce more than is consumed will be eliminated, and the generative force that creates property will be destroyed.

When property rightly obtained can be taken by authority of law for a social or public use, or for the benefit of private users, without fair compensation, government will cease to protect the right to own property, it will become the robber of private owners, and will relapse into an irresponsible tyranny, although it may still be called "a government of the people, by the people."

When in popular belief it is declared to be right for public or for private users to use services rendered by others without paying a reasonable price therefor, laborers will receive only the compensation of slaves.

UNJUST DISTRIBUTION OF PROPERTY.

There is no popular complaint against the principles of justice here declared. All discontent has its origin in a belief that these principles are not properly applied to the distribution of property created by the joint use of the labor and capital of many persons. A proof of this charge, that satisfies the reason of a majority, is found in the enormous wealth of a few and the comparative poverty of the many.

The people believe a great wrong is being done; that the masses are not getting a fair share of the property their labors produce; that they are being robbed. While they believe this, who can blame them for seeking a means of putting a stop to the wrong, for wanting to prevent further robbery? I cannot. I will help them do it.

While the term "robbery" is freely used, it is charged that the robbing has been done legally. The law punishes illegal robbers. The law creates legal robbers. Who enacted the law? This question gives full force to a fundamental truth. "A government of the people, by the people," is powerless to benefit

the people in any greater measure than the honesty and intelligence with which the people govern. Where is the fault in the law? How shall it be corrected?

A just distribution of property is demanded. If to-day we succeed in so readjusting the conditions under which collectively produced property shall be individually distributed for the future so that every factor of production will receive its fair share, discontent will cease. The injustice of the past will be forgotten. If this be not done the agitation will continue. The sense of wrong and injustice will grow more bitter, and the day will come when all hope of securing justice through enacted laws will be lost. An enraged people will then seek release from the servitude of wealth by seizing and distributing property by force unguided by reason, or by attempting to hold it collectively for the common good. In the presence of such a calamity there is but one safe course. Every change made in enacted law should be made solely for the purpose of rendering its operation more just. Every new law enacted should be drawn in the interests of all the people, and they should be so educated that they will approve of it as being right and just. Those who seek to perpetuate past abuses by claiming the protection of laws sure a short time hence to be pronounced unjust by verdict of the people should have a care. Laws are the creation

of public opinion. Safety is not in the law, but in a correctly educated public conscience. Those who demand a change to overthrow the brutal power of wealth should have a care, lest the remedies they propose contain more poison than the miasma of greed of which they complain. They should not mistake honesty for intelligence. They should know that it is not necessary for a person to be dishonest in order to be absolutely wrong. More unjust laws have been written by the cruel hands of innocence and of ignorance than by all other tyrants from whose rule humanity has suffered.

The first blow to stop the unjust distribution of property is apparently aimed at public service corporations. That some of these corporations are guilty of an abuse of power is true. That all are guilty is false. The laws under which these corporations are incorporated and are operating do not properly protect the interests of the people, nor of the corporations. These corporations as they now exist must be removed from the pathway of progress. The guilty and the innocent must alike give place to the incoming of a new order of things, in which no robber baron shall have a place that will permit him to prevent the entire benefits of all mechanical improvements, all increments from growth of population, all favoring changes in general economic conditions from going unimpaired directly to

the people. This demand is made in the name of the people. Recognizing the requirements of justice, that laborers are entitled to the profits of their labor; that those who use property belonging to others should pay for its use; that property taken for the benefit of public and private users should be fairly paid for, and that public and private users of services should pay a reasonable price therefor, the advocates of the people's rights demand that all public service industries shall be owned and operated by the people, for the people, to the end that all benefits collectively produced shall be individually distributed in accordance with the requirements of justice. Before deciding that this is the best solution of the franchise question that can be found, it is necessary to examine the conditions under which municipal ownership and operation must be undertaken, if it is to be successful, and to discover whether or not such an industrial system correctly applies those principles that are universally accepted as being right and just. If it does not, then there must be fatal defects in the system which will prevent it from correcting the existing injustice in the distribution of property.

IS MUNICIPAL OWNERSHIP AND OPERATION A CORRECT SOLUTION OF THE FRANCHISE QUESTION?

Property can be owned collectively, but an industry cannot be operated without an organization. The determination of public policy may be declared by a direct vote of all the people, or by vote of their representatives in municipal councils and state legislatures. This is the legislative function. To carry their declared policy into effect, however, the people must act through constituted agents clothed with executive power. This is the administrative function. When the people own a local public service industry, they must place its operation under the administrative management of their municipal government and depend upon the efficiency of this agent to realize the best obtainable economic results; or they must lease the right to operate to an individual, partnership, or corporation, under contract, the terms of which will secure for the people all the advantages they can justly claim, and guarantee to their operating agent an opportunity to secure fair compensation for the use of its capital and the responsibilities and risks it assumes. In the first instance, the people furnish all the capital, assume all the responsibilities and risks of management, and secure for themselves the full measure of all advantages and profits that their agent can earn for them. In the second instance, the people furnish the oppor-

tunity to operate the industry, grant the right to make special use of their public possessions for its purposes, and define limits beyond which all advantages and profits shall belong to the people, and within which they shall belong to the operating agent. Through which of these systems can advantages and profits produced by the agent of the collective interest be secured in largest measure and justly distributed for the individual benefit of all citizens? If my friends who advocate municipal ownership and operation are right, it must be made certain that all conditions under which municipal ownership and operation is authorized and undertaken are intelligently designed to insure its success, and that none of these conditions shall unjustly destroy or abridge any individual right. While individual rights are limited by a due regard for the similar rights of others, the collective right is limited, by the same rule of justice, by a due regard for the similar rights of individuals. Justice cannot be established by substituting collective injustice for individual or corporate injustice. If justice is ever established it will be through the doing of justice by the collective government, by corporations, and by all individuals.

FRANCHISES REGULATING MUNICIPAL OWNERSHIP AND OPERATION.

The first condition of success for municipal ownership and operation is determined by the franchise

under authority of which municipalities are permitted to undertake such enterprises.

Franchises should be granted to municipalities by a general state law, uniform in its provisions for every town and municipality. This law should constitute every incorporated town and city a legal corporation for the purpose of rendering industrial public services, and clothe them with power to own and operate in the name of and for the benefit of the municipality and of its inhabitants, one or all public service industries, whenever such a policy is determined upon by a majority vote of all registered municipal voters.

This law should require:

1. That every public service industry owned by a municipality shall be owned and operated as a monopoly in order to secure for the people all benefits derivable from natural monopolies.

2. That municipalities deciding to transfer a public service industry from private to public ownership shall take possession of all existing property, by whomever owned, then being used for the purpose of rendering such service, under proceedings for the exercise of the right of eminent domain, or by arbitration, if so mutually agreed upon with the owners of said property.

3. Municipal authorities to dedicate public possessions to and to take private property for the special use required for the effective rendering of the service,

and to adjust the distribution of special burdens or benefits created thereby, by an assessment of damages or benefits on the private property affected, as for other public improvements.

4. The taxation of all private and public users of the service on the basis of the cost of the service used plus such profit, if any, as the municipal council may determine; and that no service shall be furnished to a public or a private user free of charge, or at a price less than the full and entire costs of ownership and operation.

5. Every municipality to include in all statements of cost made to determine the price to be charged to public and private users for service rendered:

(a) Interest on the entire investment at the rate paid by the municipality on its bonded debt.

(b) The cost of insurance against loss by accidents of all kinds.

(c) The value of municipal taxes relinquished by reason of municipal ownership.

(d) The amount of state taxes paid.

(e) The cost of insurance against the impairment of investments by reason of depreciation from use and improvements in mechanical arts.

(f) The cost of all material consumed.

(g) The cost of all salaries and wages paid for administration and operation.

(h) The cost of all sundry expenses not otherwise classified and included.

6. An addition to cost, for the purpose of determining selling price, of a sufficient annual provision for a sinking fund to fully pay at their maturity all bonds issued on account of the industry.

7. All municipalities to keep books of account for each public service industry owned and operated by them, in the form prescribed by the state, and to subject the same to an audit whenever required by a duly authorized officer of the state.

8. The creation of a competent *Board of Municipal Regulation*, which shall have immediate supervision of and be responsible to the municipal council for all details of administration and operation. Said board shall determine all questions of engineering, mechanical and operating details, and shall report to the municipal council at stated periods all information necessary for its guidance in deciding questions of public policy pertaining to the service.

9. All employes shall be protected in their right to employment by civil service regulations which shall provide that no employe shall be discharged without cause, set forth in a written statement signed by the officer ordering the discharge, and after a proper opportunity to be heard in his own defense.

10. The municipal council shall determine the rates

to be charged public and private users for services rendered to them, for periods of five years, and shall provide that all services rendered to any municipal department, or to the municipality in any way, shall be estimated and paid for at the price fixed, out of appropriations for such department, or for the general expense of the municipality.

11. The municipal council, on the recommendation of the Board of Municipal Regulation, may lease to a private person, partnership or corporation the municipal franchise and property then used for the purpose of a public service industry owned by the municipality, on terms that will secure to the municipality all the benefits of municipal regulation provided for in the act, and the additional advantages of employing private capital, for which interest on the entire investment shall be paid at the same rate per cent. as the municipality is at that time paying on its bonded debt, and all responsibility and risks of management to be assumed by the lessee, in consideration of the determination of rates for periods of five years, to be charged by said lessee for services to be rendered to public and private users, on the basis of cost as herein provided, plus a profit calculated at twice the rate per cent. of interest then paid by the municipality on its bonded debt, such lease to terminate at the

expiration of any period of five years, at the option of the municipality.

12. To reimburse the state for the loss of taxes relinquished by reason of municipal ownership and for the expense of supervision and auditing municipal public service accounts, and for the publication in an annual volume by the state, which is hereby required, in form to facilitate reliable comparisons, of the reports of all municipal public service industries, each municipality shall pay to the state an annual tax of one per cent. on its gross receipts from the sale of service to public and private users.

These requirements are designed to develop the highest attainable degree of efficiency for municipal governments, the agent to which the people must intrust the administration of their public service industries when they adopt the policy of municipal ownership and operation.

It is only through expert and honest management, the just individual distribution of the burdens of providing the required investment, and of the costs, responsibility and risks of ownership and operation, and by the just distribution of benefits collectively earned, that the people can hope to realize from municipal ownership and operation the full measure of the advantages they seek.

PUBLIC SERVICE INDUSTRIES ARE NATURAL MONOPOLIES.

That public service industries are natural monopolies and should be so recognized and dealt with is a fact conceded by every intelligent student of the subject. The failure to apply the economic law of monopolies to these undertakings and to regulate them in accordance with its requirements is responsible for all the evils of which the people justly complain. All attempts to secure the best services at the lowest practicable price for users through the regulative force of competition have been, and must always be, as illogical and abortive as an attempt to quench a fire with oil. By what process of reasoning people reach the conclusion that a service can be cheapened by division requiring the duplication of plants, service lines, equipments and managements, instead of by concentration, is not intelligible to the mind of the well informed. The belief that competitors will always fight each other and sell service without a profit has no justification in human experience. Any business that does not earn a reasonable profit must eventually fail. For this reason there can be no permanency to a competition that cuts prices below cost plus a reasonable profit, nor any advantage in a divided business when such division must increase cost and thus raise the basis by which price to users must be determined.

The people of any city owning and operating water works would receive with derision a proposal to cheapen the water service by dividing the industry and constructing a special system for each ward, or one system for public uses and another for private uses. This being true, why should they regard the construction of a lighting plant for public uses and employ another plant for private uses as a sane proposition? Or why should they expect advantages from the division of any other public service?

In order that there may be no division of a public service industry, no duplication of investments and management, no destruction of capital through the wastes of a war of competition, and that all benefits derivable from a monopoly may be secured by the people, it is necessary, in applying the principle of municipal ownership and operation, for the municipality to take for public use all property then employed in rendering the service. The principle that private property shall not be taken for a public use, or for the benefit of others, without just compensation, requires that this shall be done. The assurance that this principle will be fairly applied in every case will go far toward destroying opposition to the progress of the municipalization of these industries, because those owning such investments cannot claim vested rights superior to the rights enjoyed by owners of other property. It is a

necessary condition of the sovereignty of the state that all property shall be held subject to public use under the exercise of its power of eminent domain. The delegation of this power to a municipal government to be applied to certain classes of property is not the creation of a new power; it is the regulation of an existing power. The exercise of this power is necessary to enable municipalities to wipe out the mistakes of the past and transfer public service industries from private to public ownership, and to consolidate and operate them as a unit for the benefit of all the people.

PUBLIC SERVICE FOR SOCIAL BENEFITS.

All public services should be primarily designed for the social as well as the economic benefit of users. One advantage of high importance accruing from municipal ownership of public service industries is found in the power proposed to be given to a *Board of Municipal Regulation* to map the city for lines of service; to dedicate public possession to the special uses of the respective services; and to minimize the necessary public investment in construction by condemning the right of way and assessing damages and benefits on the property affected under the rule of procedure for street improvements. This process of development will cause all lines of service to conform to a predetermined plan designed to serve all sections of the city equally well,

to make the growth of the service and of the city symmetrical, to furnish the service by the most direct routes, and to preserve free from the burdens of such services, as near as may be, a corresponding system of streets, thus contributing greatly to the general comfort and pleasures of the people. This procedure will stop "street grabbing" by corporations for speculative purposes. It will end serpentine constructions authorized, not for the good of the city, but to enable one corporation to strike another at as many points as possible. It will bring order out of existing chaos in the method of locating service lines and dealing with abutting property-owners. It will give users an opportunity to secure some of the benefits derived from increments of value created by social conditions.

SERVICE AT COST.

In applying the principles of justice to the solution of questions of public policy, individuals can be considered only as members of a class. There are two classes of users of public services, private and public. In the case of the public user, the taxpayer is the real party in interest, as the cost of all publicly used service must be paid by taxation.

To obtain service at cost is the ideal condition for users. No user can accept a service at less than cost without violating the principle of justice, that forbids

the taking of the service or property of one by another without giving a just compensation therefor. Compensation that does not fully cover cost in the case of a publicly owned service cannot be just.

If users are to obtain service at cost, all service rendered must be paid for. No free service can be allowed. If free service is allowed, those who pay for the remainder of the service must pay for the free service. If they do not, the free service must be paid for by taxpayers until a way is found of really getting something for nothing, or of making one plus nothing equal two (1+0=2), a mathematical absurdity. The only just individual distribution that can be made of collectively earned advantages is by having all service assessed and paid for at fixed rates, not less than cost, each private user paying for what he uses, and taxpayers paying for what the public uses. This is justice.

COST MUST BE FULLY AND CORRECTLY STATED.

It is clear, when the price of a service is based on cost, that an understatement of cost must be unjust to taxpayers, because it will inevitably create a deficit which must be paid by taxation; and that an overstatement of costs must be unjust to users, because it will require them to pay more than the actual cost of the

service, and thus create a surplus for the benefit of taxpayers. For these reasons the fundamental basis of a correct public policy must not be left to the judgment of the uninformed, or the caprice of the politically ambitious. It is as clearly the duty of the state to protect property-owners, on the one hand, and private users on the other hand, from unjust exactions by municipal authorities through insufficient or exorbitant charges for public services, as it is to curb the greed of corporations, or safeguard property from being stolen. The state cannot protect users and taxpayers without rigidly requiring that all services must be assessed and paid for at cost, plus any profit that may be authorized by the people, of whom users are in the majority. It must specify all items of cost and make the requirement mandatory that all of the items must be honestly included in every statement made for the purpose of determining cost as a basis for price.

More loss is caused by persons engaged in industrial undertakings who do not know how to calculate cost, and therefore do not know how to calculate prices than by any other fault of judgment. The importance of having cost properly calculated is so great an explanation of the reasons for including in cost every item specified is deemed necessary.

INTEREST ON INVESTMENT AN ITEM OF COST.

Interest is the wage of capital. Wage is the interest of labor. Wage is a guaranteed payment for the use of capital, and of labor, without risk of loss or the right to share in profit. In recognition of this principle, whenever capital is hired for interest only, security is given to make its payment certain, and whenever labor is employed for an agreed wage, the law makes the debt for wages a first lien on the property of the employer.

It is a requirement of economic law that whenever the risk of a loss is incurred the margin for making a possible gain must sufficiently overbalance the chance of loss to justify the venture. The greater the risk of loss the larger must be the prospective gain. No person has an economic right to invest capital and assume the burden and responsibility of its management and without a security against loss, for no greater prospective profit than can be obtained by loaning the capital on bond and mortgage, without responsibility for its management or liability of loss. The first care of a savings bank is security for the principal, the second care is certainty of the payment of the stipulated wage-interest. No laborer has an economic right to enter an extra-hazardous employment for no greater compensation than he can obtain in less haz-

ardous occupations. Whenever a risk of loss is assumed, there must be a corresponding compensation for the risk, either in a higher rate of wage, or by a share of the expected profit.

Persons engaged in any kind of business who fail to calculate interest on their investment as a part of cost deceive themselves as to the cost of doing business or of the product they sell. When they omit interest from cost, and then call the apparent gain "profit," they overstate their profit by the amount that should have been charged off as interest. This error leads many to suppose they are making a profit, when the fact is they are only earning interest and are making no profit. They could secure the same result by withdrawing their capital from business, loaning it on bond and mortgage with ample security for the payment of the principal and interest, and have no responsibility for or labor to perform in connection with its management. Those who unintelligently omit interest from cost understate cost. This leads to the underselling of those who calculate cost properly, a season of doing business without a profit, and ultimate failure; or, on the other hand, it leads to an overstatement of profits, which induces an unjustified extension of the business; creates pressure for cutting down prices under the impression that profits are abnormally large; induces

other capitalists to enter the field and begin a war of competition; develops an era of overconstruction and overtrading, to end in panic and disaster. It is the duty of the state to forbid unsound financial methods in financing municipally owned industries.

The payment of interest on investment and wages for labor is required by the principle of justice that forbids one to use the property or the service of another without paying a just compensation therefor. In the case of municipally owned and operated industries, capital is employed for the benefit of the users of the service. The application of the principle of justice requires that users shall pay for the use of the capital employed for their benefit by including interest for its use in the cost of service for which they are to pay. It is not difficult to get this demand conceded in the case of payment of interest on bonds issued to secure capital to cover the investment. It is more difficult to cause its justice to be understood and acknowledged for that part of the investment that is obtained from taxpayers.

INJUSTICE TO TAXPAYERS.

At this point attention must be called to the relation of taxpayers to the public policy of the municipal ownership and operation of public service industries. Public ownership means the substitution of compul-

sory for voluntary investments. Every dollar taken from taxpayers for investment in municipally owned industries is confiscated. It is taken in violation of the principle of justice that requires just compensation for private property when taken for a public use, or the use of others. Every dollar collected from taxpayers for such purpose is socialized. It is used for the benefit of the public and for others without giving to the taxpayer any compensation whatever. If the taxpayer uses the service—many taxpayers do not because they are nonresidents—he must pay for it the same as all other users pay. He secures no compensation or benefit as a user for having contributed to the investment. Some will argue that taxpayers receive indirect compensation for the money paid as taxes on account of the public ownership of the industry, through the increased value of their property due to the social and economic advantages created by the public service. This argument has no foundation in fact, because the increase in value of property from this cause would be just as great if the service was supplied by a private corporation requiring not one dollar of the taxpayer's money. In comparison with private ownership and operation, municipal ownership and operation cause an absolute loss to every taxpayer, without any compensating benefit whatever, of every dollar ex-

acted from him by the arbitrary power of taxation to provide capital for investment in a municipally owned industry. Taxpayers as individuals lose the principal invested and therefore lose the interest such principal would earn for them if deposited in a savings bank. This fact does not furnish a reason for not including in cost interest on that part of a public investment paid by taxation; it emphasizes the reason for doing so. If taxpayers, as individuals, are unjustly despoiled of a part of their property for the public benefit, and are deprived of any compensation for the use of their capital in perpetuity, taxpayers as a class are certainly entitled to the small modicum of compensation that may be secured through the collection of interest on the tax paid investment and devoting the income so derived to the reduction of general taxation.

The injustice to taxpayers involved in most of the proposals to socialize public service industries is strikingly illustrated by contrasting the difference between the treatment of taxpayers and bondholders. The taxpayer's dollars are taken by arbitrary power and his right of ownership in them destroyed by the withdrawal of the consent of society to such ownership. The dollars of the taxpayer are socialized by the arbitrary extinction of the right of private ownership and thereafter are held and used as social capital. Not

only is no compensation given by society to the taxpayer for his property, but he is denied the right to any compensation for its use. Taxpayers lose their principal and they lose the interest that principal would earn if invested in bonds.

The bondholder's dollars are taken by his voluntary consent and his right of ownership in them is acknowledged in the bond he buys. His dollars are used by the public but are owned by himself. The repayment of the principal and the payment of the wage of capital invested by the bondholder are secured by a mortgage on the taxpayers' property. The bondholder takes no risk of losing his property and enjoys fair compensation for its use while it is employed. If the construction of the works and the rendering of the public service does increase the value of the taxpayer's property, it will increase the value of the bondholder's property in exactly the same way, and to exactly the same degree. If the use of the service brings social and economic advantage to users, these advantages are enjoyed by taxpayers and bondholders in exactly the same way, and to exactly the same degree. No advantage whatever from the use of the service comes to taxpayers that does not come in equal measure to users and bondholders. Users get service at cost, bondholders get service at cost, and they hold security for the repayment

of their investment and for the annual payment of the interest stipulated for its use. Taxpayers get service at cost, but they lose the principal of their investment and are forever deprived of the right to exact any compensation whatever for its use. More than this, if costs are underestimated, or income is not sufficient to fully pay all costs of ownership and operation, and there is deficit, or if there is a great loss from some uninsured cause, the taxpayer, not the user nor the bondholder, must be assessed to make good the loss. Why should the principles of justice be correctly applied in dealing with users and bondholders and violated in spirit and letter in dealing with property owners?

In this analysis it is clearly shown that, unless the principles of justice are correctly applied to every detail of municipal ownership and operation, and rigidly enforced by authority of the state, the policy of the municipal ownership and operation of public service industries will open a way in which all private property may be and will be socialized. Property owners who see in the movement for municipal ownership only an attack upon corporations, with which they are greatly in sympathy by reason of the corrupting and unjust conduct of some corporation managers, will find, if it is not rightly guided, that they have taken a viper into their bosom, which, when they have warmed its ener-

gies into forceful action, will sting them to their death. These words of warning are spoken, not in the interests of corporations as such, but in the interests of all owners of private property, of all industry, of all labor; an injustice done to one is an injustice to all. These words of warning should be gratefully received by all honest advocates of the municipal ownership and operation of public service industries, because the injustice pointed out can be easily eliminated from their program and their cause will thereby gain the strength of an objection overcome.

INSURANCE AGAINST LOSS BY ACCIDENTS AN ITEM OF COST.

Insurance against losses caused by accidents of every kind is one of the marked features of improvements in business methods developed almost into an exact science during the present century. There is probably not a voter, certainly not a city official, who does not protect his private interest by buying insurance in some of its many forms. The only reason any reference need be made to this item of cost is the fact that many custodians of public property think it unnecessary to insure it, because "the people can afford to carry their own insurance." This does not mean the users for whose benefit the service is primarily rendered. If a loss occurs, requiring the investment of new capital in

order to continue the service, no assessment can be made upon users. The course of events cannot be turned backward to give opportunity to increase the price charged for the service, and thus secure from users the price they should have paid at the outset. If insurable losses cause deficits, taxpayers, not users, must make up the amount of the loss, unless the cost of insurance is included as an item of cost.

When it is said "the people can afford to carry their own insurance," bondholders are not meant. They take no risk of loss. If bonds were secured only by a pledge of the property used for the purpose of the industry in behalf of which they are issued, bondholders would be quick to require an insurance on the property to perfect their security. Insurance would then be an item of cost. But while taxpayers' property is mortgaged for the payment of the debt, and the security is so ample that the debt will be paid, although all the property bought with funds secured by issuing bonds should be destroyed, bondholders will not insist upon insurance to perfect their security. Unless city authorities are required to buy insurance for the protection of taxpayers, they will, in some instances, fail to do so, and therefore will have no item of insurance in cost. In this event they will underestimate cost and do an injustice to taxpayers, who must make good all losses by selling service to users for less than cost. It

is unjust to place such a burden upon taxpayers for the benefit of users.

TAXES RELINQUISHED AN ITEM OF COST.

When property is transferred from private to public ownership it is withdrawn from the list of taxable property and placed on the list of untaxed municipal property devoted to public use. This causes a loss of municipal income by the amount of taxes the municipality would have received had the property remained in the hands of private owners. This loss is an item of cost directly due to municipal ownership.

At the present time the importance of this item may be understood by taking notice of the widespread and earnest discussion of the problem of the amount and form of compensation public service corporations should pay to municipalities for the privileges they enjoy. Whatever this amount may be, it is lost to the municipality whenever it takes possession of the industry, and the general tax levy must be increased by the amount of the loss in order to maintain municipal income. The basis of taxation is narrowed by the value of the property withdrawn from the taxable list, but the aggregate amount required to be raised by taxation is not correspondingly reduced; therefore, the tax rate must be correspondingly increased on the property remaining on the taxable list. Here is another instance

where an injustice will be done to taxpayers, for the benefit of users, unless the property used for a public service industry is taxed for the full amount it would be required to pay if belonging to private owners, the amount of the tax being included as an item of cost, collected through the price charged to users and paid into the municipal treasury by the Board of Municipal Regulation. If users secure service at cost they certainly cannot complain that a part of that cost is the same tax a private corporation would be required to pay if it owned and operated the business. The corporation would be compelled to include the tax as an item of cost because it would be compelled to pay the tax, and the user would pay a price for the service calculated to reimburse the corporation.

While taxpayers are the only class that can be made responsible for the debts and losses incurred in behalf of socialized public service industries undertaken for the benefit of users, they should be protected in every possible way from being compelled to carry unusual and unnecessary burdens on users' account. This is just to taxpayers. If users are just they will insist upon paying the full and true cost of the service they use. They will be abundantly satisfied with obtaining service at cost.

INSURANCE AGAINST IMPAIRMENT OF INVESTMENT—DEPRECIATION—AN ITEM OF COST.

An investor's security is not perfect unless he can at any time recover his capital unimpaired. Universal experience demonstrates the fact that no machine or equipment used for the purpose of rendering a service can be sold after only one year's service for as much as was paid for it when new, and that the ratio of depreciation will be increased with each additional year of service.

Other causes than the actual depreciation of the life of machinery, apparatus, and equipment operate more powerfully than natural wearing out from use to depreciate the value of plants used for the purpose of rendering public services.

Improvements by invention and the natural development of mechanical arts are so rapid, and produce such radical changes, no part of the machinery, apparatus or equipment of a public service corporation can be kept in use until it is actually worn out. Long before the worn-out date is reached it becomes more economical to send the old to a junk shop and buy new, up-to-date machines, apparatus and equipment.

The function of an investment insurance account is to create a reserve fund by assessing the entire investment a fixed rate per cent per annum as an item of

expense, setting apart the amount so realized as a reserve fund for the purpose of paying for all costs of betterments, maintenance and minor constructions without increasing investment account. If this is properly done the effect will be to maintain the property in a condition worth at any time the full cost of investment, or, in other words, in a condition that would make the cost of duplication at any time equal to the investment. When an industry is so financed, the investment is absolutely secure, being fully insured against impairment.

The fact of depreciation is not affected by the opinions of bookkeepers. Its presence is certain, and it will make itself felt in due time. One of the most reprehensible practices of the speculative financing of corporations is to make no charge for depreciation in current cost and overstate profits by the amount so falsified. When a plant is new and repairs are light, with no charge for interest on investment, and no allowance for depreciation, large profits are falsely shown, large dividends are erroneously paid, and the stock is quoted above par. This process may continue for a few years. The speculative public, always superficial, if it ever investigates at all, concludes that the stock is a "fancy brand," because a regular payer of large dividends readily makes a market for it at high quotations. This renders it easy for the know-

ing ones to "unload" on innocent victims and secure the fruits of their speculation with which to "organize" another industry and repeat the process. In the course of time the expenditures that should have been taken care of from a reserve fund, created for investment insurance, are forced by the inexorable logic of events into the current accounts of the corporation. The then managers find it impossible to maintain former dividends. The pressure of the inevitable is upon them. They must pay the penalty of the sins of those who were before them. In spite of all they can do dividends sink, and sink, and finally disappear. New capital is required. It cannot be obtained. The opportunity of the speculator has come again. The stock that was unloaded far above par can now be bought at less than par. The works can be overhauled, new machinery, apparatus and equipment supplied, the plant enlarged and the undertaking started on a new career to repeat its former experience. The many do not understand; the few do. The many try to get rich and fail. The few get enormously rich. Not because there is *necessarily* an unjust distribution of property, but because fundamental principles, which, if correctly understood and applied, would unerringly effect a just distribution, are ignorantly violated or intelligently ignored, and the course of events exact a penalty for sins committed. If the

distribution of wealth is unjust, the remedy lies in finding and stopping the *cause* of the injustice. In the problem under consideration a potent cause of injustice is found in the robbery of the future to make an untrue showing of a present success. The disease of greed works with fatal effect on financial and political speculators. The one is greedy for money, the other is greedy for political power. The temptation of a corporation manager to make a good showing for his stockholders is great, but it is no greater than the temptation of a political manager to win prestige from the noncritical masses by claiming that he has, or can, cut corporation prices one-half by municipal ownership and operation. That the worst features of corporate speculative financing are being perpetrated in municipal financing of public service industries is proved by the evidence of official reports. If the people want justice they should know it cannot be obtained in this way.

Users are the only ones who may object to the inclusion in cost of a large percentage on the entire investment for investment insurance. All other interests are served by it. It is a protection to taxpayers and to bondholders. They should favor and demand it most strenuously. The opposition of users to it, if any there be, will be due to their misunderstanding of its object and effect. This will be

made clear to them in due course of time if the principle is once correctly applied and continuously adhered to. It may be admitted that prices will be a little high for a few years by reason of the charge for investment insurance as an item of cost, but in the course of time the greater efficiency of machinery the gradual extensions of service, and the betterments paid for out of this reserve fund without any increase of investment, will result in an increased service capacity based on a stationary investment. This will reduce the proportionate charge for interest on investment, for taxes relinquished, and for investment insurance, thus reducing fixed charges. Operating expenses will also be greatly reduced on account of increased efficiency, so that, in the long run, prices to users will be less, and the service rendered to them will be greatly improved and far more satisfactory, than it can be if the correct principles here advocated are not properly applied to the solution of the problem: How to secure the best services at the lowest practicable price to users.

The state should not permit speculative financing in the accounts of municipally owned and operated public service industries. Its function is, not to contribute to the success of a political policy, but to establish justice for all of the people. This it can do only by requiring that the principles of justice shall be

correctly and inflexibly applied in all details of the undertakings it authorizes. Whenever the state delegates a power, it is the duty of the state to prescribe the limits within which it shall be used and an accounting showing the results of its use. The motto of the state should be: Liberty for the right; suppression for the wrong.

MATERIAL CONSUMED—SALARIES AND WAGES PAID—SUNDRY EXPENSES—ITEMS OF COST.

That materials consumed, salaries and wages paid and sundry expenses of all kinds should be included as items of cost admits of no argument. The essential requirement in this behalf is to have the accounts so kept that comparisons of all similar items month by month, and year by year, in their relation to each other, and to the total service rendered, shall furnish reliable guidance to continually improve the efficient administration of the industry. In no other way can there be any reasonable hope of reaching a condition of highest attainable economic efficiency. This requirement is so clearly in the interest of users, taxpayers, bondholders and all who are identified with and responsible for the creation and direction of municipal public policy and government, it should be demanded and insisted upon by the united voices of all the people.

ANNUAL PROVISION FOR PAYMENT OF BONDS.

If municipal public service industries are undertaken and financed, as they should be, solely in the interest of users, users should supply the investment. If they do not, they must always suffer from the handicap of having to pay taxpayers for the use of the capital employed. The ideal sought by advocates of municipal ownership and operation is to make it certain that all advantages growing out of favoring social and economic conditions, inventions and improvements in mechanical arts, of a general character, and all advantages derivable from favoring local conditions, shall be collectively gathered and individually distributed, without impairment, for the benefit of all the people, through supplying service to users at cost. The full measure of this ideal cannot be realized, even after the agent through which the people must operate—the municipal government—has been developed to the highest degree of efficiency in economical management, if the undertaking continues to employ an investment supplied by others. The principle that requires one to compensate another for the use of his property or services cannot be violated without starting public policy in a wrong direction, which, if persisted in, must inevitably undermine and destroy the ownership of property and the independence of labor.

Users can supply all the capital required for the ownership and operation of public service industries whenever the demand for a service is sufficiently concentrated and large to render the undertaking a commercial success. If such a demand does not exist, or cannot be quickly developed, the undertaking should not be entered upon. It should wait for the growth of the community to reach a point where it can afford the improvement.

The capital for municipally owned public service industries should be obtained through including in price an annual provision for a sinking fund, at a rate per cent. calculated on the entire investment, that will, if paid and compounded annually at four per cent. interest, produce an amount sufficient to return to its owners the entire amount of their investment at the termination of a period of thirty-five years. This will require an annual assessment of one and one-half per cent. on the entire investment to be added to total cost, to determine price. If municipal cost is in reality sufficiently less than corporate price to justify municipal ownership and operation, it must be more than enough less to permit of the addition to cost of this provision for a sinking fund to pay back the borrowed capital employed. In other words, municipal cost, plus provision for bond sinking fund, ought to make a price less than corporate price. If it does not, there can be

no sound economic reason for undertaking the municipal ownership and operation of the industry. If municipal cost, plus provision for bond sinking fund, is lower than corporate price, then, while users are providing the required capital through this addition to cost, they will in reality be paying less for the service than under former conditions; therefore, they will experience no hardship, no burden or liability will be placed on taxpayers, bondholders will have ample security, and, in due course of time, the ideal consummation will be reached, with justice to all, with injustice to none, when all trace of private capital will be eliminated from the socialized industry. To the realization of this ideal, if it is the best ideal that can be found, every advocate of the municipal ownership and operation of public service industries, every user, every taxpayer, every bondholder, every investor in public service industrial properties should lend their united efforts for the good of all the people.

FORMULA FOR CALCULATING MUNICIPAL PRICE.

This discussion of the subject has now reached a point at which the conclusions indicated can be gathered into the statement of a concrete formula for calculating municipal price as follows:

Plus Interest on entire investment.
Plus Cost of insurance against loss by accidents.
Plus Cost of municipal taxes relinquished.
Plus State tax paid.
Plus Insurance against impairment of investment.
Equals Fixed charges.
Total Fixed charges
Plus Cost of materials consumed.
Plus Salaries and wages.
Plus Sundry expenses of all kinds.
Equals Cost.
Total Cost
Plus Provision for bond sinking fund.
Equals Price.

ACCOUNTS PRESCRIBED AND AUDITED BY THE STATE.

Dependence for the success of the policy of the municipal ownership and operation of public service industries must be upon the correct and continuous application of the principles of justice, and the continuous honesty and intelligence with which the affairs of the municipality are administered. To realize such conditions, a uniform system of accounts, prescribed and audited by the state, designed to make the application of just principles obligatory, is a fundamental requirement of success. In no other way can the individual interests of users, taxpayers, bondholders, municipal councilmen, executive officers and employes be effectively protected. In no other way can a high de-

gree of economical efficiency in municipal administration be developed. If this be not done the policy of municipal ownership and operation of public service industries is addressed to a preordained failure. In all human experience the succcesses of the ignorant and incapable are recorded as failures by those who write impartial history.

Every person who has undertaken to gather the teachings of experience from records of such industries as are now owned and operated by municipalities knows how impossible it is to obtain information worthy of credence by those who seek only the good of the people. They know that the accounts as kept do not correctly show the full and entire costs of the services rendered. They know there is no proper application of the principles of justice to the financing of such industries; that there is no correct rule universally applied for determining a reasonable price to be charged to users for services rendered.

Beyond this, and not of secondary importance, is the loss through the want of uniform system of accounting of all advantages derivable from reliable comparisons between municipalities of the results of administration, which are possible only when all similar items are charged under the same general heading. Only by such comparisons can the relative economy of the administration of each municipality be determined. Only through such comparison can the genius,

ability and skill of the members of Boards of Municipal Regulation, of their superintendents, heads of departments, and of all employes from highest to lowest, for the duties they are intrusted to perform, be demonstrated, and proper credit for work well done be earned and given.

No person who honestly desires the success of the municipal ownership and operation of public service industries; no member of a municipal council; no executive office of a municipal government; no public employe who seeks to do his whole duty solely for the good of all the people, can intelligently do otherwise than to cordially approve of, sincerely recommend and earnestly work to secure the adoption of a uniform system of municipal accounting to be prescribed, audited and reported upon by the state.

BOARD OF MUNICIPAL REGULATION.

No machine, however perfect, has ever been manufactured that did not require brains to watch over it, keep it in order and direct its operation. The best results are obtained only when the best guns have the best men behind them. The work of improving municipal governments will only be half done when the machinery of government has been thoroughly overhauled and provided with every up-to-date improvement. Men of honest purpose and exceptional

ability, trained for the duties they are to perform, must be commissioned to operate the machine. I am not of those who believe the lack of efficiency in municipal governments is largely due to the inability of the men intrusted with the duties of administration. I believe the failure is due very largely, if not entirely, to the faulty machines they are called upon to operate. Under existing conditions municipal officers have no fair opportunity to demonstrate their ability. Under the system here suggested they will have. A system that will enable those now in office to make better men of themselves is better than one which requires the displacement of those now practically engaged in managing municipal affairs, in order to bring in new blood. The blood now in office is good enough if it is only properly warmed for action and its energies are rightly directed.

In every municipality the three men selected for the Board of Municipal Regulation should be the ablest municipal officers in the employment of the people. The duties of their office will acquaint them with existing conditions, the needs and the possibilities of the municipality and of its inhabitants. To these three officers, acting as a Board of Municipal Regulation, all administrative questions pertaining to the construction of works, location of service lines, equipments, character of service, methods by which

a service may be rendered and schedules governing its operation can safely be intrusted. Responsibility for success must be centralized. The efficiency of public management will gain or suffer in public estimation by comparison with corporate management. It is unreasonable to expect municipal officers to make as good a showing for their management as corporation officers do, unless they are continued in office, paid as well for their services and given as complete control of the business features of the industry they are expected to manage successfully. If municipal industries are to accomplish the greatest good of which they are capable, they must be placed under the management of Boards of Municipal Regulation and the public must reward effective service with certainty of permanency in office and just compensation.

CIVIL SERVICE REGULATIONS FOR EMPLOYES.

The dignity, the honor, the independence of labor will be meaningless words on the American lips until it is an established fact that every public employe of a municipality, of a state and of the republic can hold his place of employment by right of his own merit. From no other cause do advocates of the municipal ownership and operation of public service industries fear defeat as much as they do from the making of

the patronage involved the football of party politics. If men may be given employment in and carried on the payrolls of such undertakings to reward loyalty to party bosses instead of because their labor is necessary and well performed, if men who are capable and faithful in the performance of their duties may be arbitrarily discharged to make room for favorites and party workers, all hope of reducing municipal cost to the level of corporate price should be abandoned before the undertaking is entered upon. FAILURE, in large letters, is written over the entrance to every industry managed in the interests of party politicians instead of all the people. This fact is clearly seen by everyone who has been or is in position to know from practical experience the inefficiency of political in comparison with private corporate management.

That prominent advocate of the municipal ownership and operation of public service industries, the Hon. John MacVicar, Mayor of Des Moines, Iowa, and President of the League of American Municipalities for 1898, in his presidential address to the league at its second annual convention, held in Detroit, Mich., August 1-4, 1898, said:*

"To my mind, it would be suicidal to enlarge the func-

* See Proceedings of Second Convention League of American Municipalities, 1898, page 13.

tions of municipalities without providing for the thorough application of the merit system in appointments, promotions and removals."

The Hon. Edward Kibler, a member of the Municipal Code Commission of the State of Ohio, after making as searching an investigation of the subject as is possible to human intelligence and industry, in an address on the work of the Commission, before the Ohio State Board of Commerce, at Columbus, Ohio, January 18, 1899, said:

"The Commission will earnestly recommend to the Legislature for adoption a compulsory merit system of appointments, applicable to the employment and removal of every city officer and employe whose employment and removal shall be controlled by reasonable and practicable tests of fitness and by no other consideration. * * *

"The Commission regards the adoption of such a system as essential to the success of the experiment of local self-government, and believes that there are few intelligent people in Ohio, and no politicians who have any regard for the public weal, who are opposed to the principle of the selection and retention of public servants by the test of ascertained merit. * * *

"Under existing conditions, the Commission is not in favor of municipalities embarking in the ownership, operation or control of street railways, and, in

general, doubts the wisdom of municipal ownership and operation of waterworks, gasworks, electric light and power, telephones and the like, for the sole reason that *nothing but financial disaster can be expected as the result of the political control of such vast interests.*"

PRICES FOR SERVICES DETERMINED BY MUNICIPAL COUNCILS.

The determination of public policy is a legislative function. It is an open question of public policy whether public services should be sold at cost, as near as can be safely calculated, excluding the principle of deriving a public revenue from such sources, or whether the sale of such services should be made the medium of indirect taxation to raise public revenue for any specific or general purpose. Such a question should be left open to be determined by each municipality for itself in the light of its own necessities, or trend of public thought. With all the facts before it, supplied by the reports and estimates of the Board of Municipal Regulation, and the comparative reports published by the state showing the results of operation for every municipally owned industry in the state, a municipal council can intelligently determine prices for public services that will be right and just, in accordance with the adopted policy of the municipality.

In industries of this nature a reasonable period of

time is required to permit the full development and fair trial of any adopted schedule of prices. For the benefit of the service, and to promote certainty of calculation for the people in the economical management of their private affairs, it is desirable that changes in prices for public services shall not occur at too frequent intervals. Experience seems to indicate that the determination of prices for periods of five years will be attended with the most satisfactory results for the good of the service and the benefit of the people, and the adoption of such a period is earnestly recommended.

RIGHT TO LEASE FRANCHISE AND PROPERTY.

If the management of municipal public service industries is to be determined solely by the application of sound business principles, municipal governments must be as free as private corporations to secure a commercial advantage in whatever way it can be best obtained by operating or by leasing its franchise and property.

Municipal governments possess no power to achieve success in the management of industries beyond the limits assigned by the honesty and intelligence with which they are administered and the economic conditions under which they are operated. So long as there

are some successes and many failures in the management of private corporations there will be some apparent successes and many failures in the management of industries by municipalities. It is an ordinary occurrence for the owners of private property to lease its use to others who are better able to manage it successfully. The right to lease is as valuable as the right to own. It is simply the right to dispose of the use of property to the best advantage for its owners.

A right given to municipalities by a general law of the state to lease their franchises and property used for the purpose of rendering a public service will not affect any municipality that is managing its industries in an efficient and satisfactory manner. It will open a way out of difficulties for any municipality which, through faults of its own, or a combination of circumstances it is powerless to control, finds itself temporarily unable to manage an industry to as good advantage for the benefit of its inhabitants as it can secure by contract with private persons. The law is permissive, not mandatory. It should limit the lease to the short period of five years, thus securing for the people an opportunity to review their action at frequent intervals, and to change their policy in such way as may at the time appear to them to be best calculated to serve their interests to their best advantage.

This right to lease places municipalities in a po-

sition to manage their own local affairs in their own way, without the necessity of obtaining further or special grants of power from the legislature, and is as essential to a full degree of liberty in "home rule" as is the grant of the general power to own and operate public service industries. It is, in fact, a necessary extension and regulation of that power which municipalities must possess if they are to be in position to at all times do that which is or may become most desirable to them in the light of their individual necessities, condition and experience.

COMPENSATION TO THE STATE.

A general adoption of the policy of the municipal ownership and operation of public service industries will result in the withdrawal of an enormous amount of property from the taxable list, and a consequent great loss of revenue to the state, unless provision is made whereby the state can derive a revenue from municipally owned and operated industries. The question of compensation to be paid to the state by public service corporations is only second to that of the compensation they should pay to municipalities. In both applications it is a question of public policy. In the one form it affects only the interests of users and taxpayers within municipalities. In the other form it affects the interests of all the people of the state.

While municipalities should be free in the management of these industries to carry out their adopted policy in their own way, so far as it affects solely their domestic affairs, it is unreasonable for them to claim exemption from the policy of the state adopted to regulate its relations with all corporations—municipal and private—owning and operating public service industries. The requirement of the state, on both classes of corporations, should be identical.

The mistake should not be made of regarding the state tax on public service industries, here proposed, as a burden. If values are rightly estimated, the service rendered by the state in prescribing a uniform system of accounting, in auditing the accounts, and publishing an annual volume of reports that will enable the people of any municipality to correctly judge the economic efficiency of the management of their own agents in comparison with that of any other, or all municipalities in the state, will be accepted as of greater value than the tax paid for the support of the state government and for the special services performed by it. Without the checks and the direct helpfulness of such a system of state supervision there is no rational hope of the policy of the municipal ownership and operation of public service industries ever becoming generally successful.

Having stated the terms on which the state should

grant franchises to municipalities, permitting them to own and operate public service industries, and given reasons for the terms suggested, based on a correct application of the principles of justice, the terms on which the state should grant franchises to public service corporations, permitting them to own and operate public service industries, will now be discussed.

FRANCHISES REGULATING CORPORATE OWNERSHIP AND OPERATION.

If the terms proposed for municipal franchises are right and just, then the same terms, so far as they can be made applicable, contained in corporate franchises will render such franchises right and just. The application of the principles of justice must be identical in both cases, if justice is to be established. The safeguards for the interests of users, of taxpayers, of employes, of investors, of the general welfare of the municipality and of the state should be identical whether an industry is owned and operated by a municipality or by a corporation.

In either case a Board of Municipal Regulation should be created, endowed with power to determine all questions relating to locations for lines of service; to open the right of way for the same under the rules of procedure for street improvements; to determine the character of motive powers to be used; the char-

acter of the equipment by means of which a service is to be rendered; the character of the service and the schedules on which it is to be operated.

In either case the municipal council should have power to determine questions of public policy involved in fixing for periods of five years the prices at which services shall be rendered to users, and the compensation to be paid to the municipality by corporations.

In either case the municipality should have the option to decide, at the termination of any period of five years, whether it will continue to operate its municipal industries or lease them; or whether it will permit corporations to continue to operate such industries or require their transfer to public ownership, and operation, exercising the option to purchase contained in the corporate franchise or lease.

In either case the system of accounting prescribed and audited by the state, and the comparative reports of operation published by the state, should be identical, and the state should assess the same tax on both classes of industry.

In either case prices to users should be based on cost, including identically the same items of cost, calculated on the entire and true investment, and determined for the same periods of time.

The legislature of the state and municipal councils

should deal with public service industries in the way best calculated to benefit public and private users, regardless of the agent by which they are owned and operated.

Every regulation and condition here suggested, designed to render municipal ownership and operation efficient and successful, will tend with equal force to render corporate ownership and operation efficient and satisfactory.

Every requirement insisted upon for the protection of users, of taxpayers, of employes and of investors is as fundamental a requirement for the correct application of the principles of justice under one form of ownership and operation as the other.

By placing the municipal and the corporate ownership and operation of public service industries upon identically the same basis; permitting them to operate under franchises identical in terms; subjecting them to an identical system of state accounting, auditing and reporting, and of municipal regulation, the people can learn the truth regarding the results of operation, and can intelligently decide which of the two agents—municipal governments or business corporations—can and does serve their interests best. No more potent force can be conceived to stimulate each agent to its best endeavors, than the competition for supremacy thus induced between two powerful rivals enjoying

equal terms and no favors. If it is true that corporations have been a cause of corruption, it may become true that they will be the means of purifying government, whether municipal, state or national. Opportunity for blackmail and for corruption will die together. Neither can live under a well-regulated system of uniform accounting and publicity. When the accounts for all municipally owned and operated public service industries are placed in exact comparison with similar accounts for corporations, municipalities will be compelled to adopt strict business methods, and do their utmost to reach a high standard of economic efficiency, or acknowledge defeat by having the people place the industry under the management of a more efficient agent—a business corporation. All advantages from such a competition must go direct to the people.

PRICE AT COST VS. PRICE AT COST PLUS PROFIT.

Under municipal ownership and operation justice demands that users shall pay the full and entire cost of the services rendered to them. No honest user can intelligently claim that price should be fixed below cost.

Under corporate ownership and operation justice demands that users shall pay the full and entire cost of

the services rendered to them, plus a reasonable profit arbitrarily fixed at twice the rate per cent., calculated on the entire investment, that the municipality is paying on its bonded debt.

The fact that users will be required to pay no profit in one case, and a profit in the other case, may lead the noncritical to suppose that prices to users will be lower under municipal than under corporate ownership and operation. Such a conclusion can be reached only by those who neglect to take account of and to properly value the profit-producing factor of self-interest, which is eliminated under municipal and retained in full force under corporate management.

Profit is the direct product of man's thinking power, utilizing to the utmost all materials and labor, all genius, skill, care-taking and energy at its command, concentrating and directing the whole force of industrial organization to the one purpose of economical production. The vital force of self-interest is destroyed when laborers, directors and investors are denied the right to own the profit that may be produced by their united efforts. The denial of a profit to those by whose efforts it must be created, if at all, destroys the production of the profit. Profit eludes the grasp of those who seek unjustly to take it, as the secret of life eludes the surgeon's knife. In transferring an industry from corporate to municipal ownership the people can kill

the energy of the profit-producing factor, but they cannot grasp the fruits of its toil.

When operated under the conditions stated, the only margin of advantage there is to be gained through transferring an industry from corporate to municipal management is the margin of the legally limited corporate profit. To gain this profit private capital must be destroyed to the full amount taken from taxpayers by the arbitrary power of taxation and the full amount taken from users by indirect taxation through including in price a provision for the payment of bonds. In no other way can the capital of private investors be eliminated from the problem and its place be filled by socialized capital. In addition to this all costs, all responsibility, all risks of ownership and operation must be assumed and the margin of profit, narrow as it is, must be expected to shrink by the full difference in efficiency between a noninterested political and a vitally interested business corporate management. The verdict of experience will be that the advantage of the legally limited corporate profit cannot be appropriated by users for their own benefit through socializing an industry. Those who cannot learn this fact through reason will have to secure it through experience.

Private property exists only because society consents to its ownership in recognition of that principle of jus-

tice which declares that a laborer has a natural right to own the products of his labor. Profit is the product of labor. Deny laborers the right to own the profit they produce and the desire to produce a profit will die. When desire is dead effort will cease. Without effort profit cannot be created. The progress of civilization is induced by offering rewards to industry, thrift and enterprise. The more certain it is made that those who earn a profit shall own it, the greater will be the energy with which the elements of prosperity will be developed.

FORMULAE FOR CALCULATING MUNICIPAL AND CORPORATE PRICE.

MUNICIPAL FORMULA.		CORPORATE FORMULA.
Investment	Equals	Investment
Plus interest on investment	Equals	Plus interest on investment.
Plus insurance against accidents	Equals	Plus insurance against accidents.
Plus municipal taxes relinquished	Equals	Plus municipal taxes paid.
Plus state taxes paid	Equals	Plus state taxes paid.
Plus investment insurance	Equals	Plus investment insurance.
Equals fixed charges	Equals	Equals fixed charges.
Total fixed charges	Equals	Total fixed charges.
Plus cost of materials consumed	Exceeds	Plus cost of materials consumed.
Plus salaries and wages	Exceeds	Plus salaries and wages.
Plus sundry expenses	Exceeds	Plus sundry expenses.
Equals cost	Exceeds	Equals cost.
Total cost	Exceeds	Total cost.
No profit	Less than	Plus legal profit.
Total cost equals price	Equals	Total cost plus profit equals price.

This statement clearly demonstrates that municipal cost will exceed corporate cost, and that municipal price at cost, will be equal to corporate price, which includes corporate cost and profit. It also shows that a uniform system of accounting identical for municipalities and corporations will admit of placing the accounts of each in direct comparison with the other, and will enable the people to see the exact difference in efficiency between the two agents, to one or the other of which they must intrust the operation of public service industries. Such accounting will demonstrate the truth of the statement I have always affirmed: When all legislative conditions are equal, municipal waste will be found to exceed corporate profit; therefore, the people can secure public services through a properly regulated corporate monopoly better and cheaper than they can through municipal ownership and operation.

If the day ever comes when this statement is proven false it will be because the efficiency of municipal governments has been vastly improved by their efforts to compete with corporate management on equal terms. Such a result cannot fail to be an advantage to the people of high and enduring value. The hope of attaining such an improvement in municipal government should inspire all who seek only the city's good to unite their efforts and work without ceasing to es-

tablish conditions without which it cannot be secured.

It will be noticed that no provision for the payment of municipal bonds has been added to municipal cost, in the above example, as it should be, to determine municipal price. If this is done municipal price will be higher than corporate price, while the bonds are being paid, provided the difference between municipal and corporate costs only equals corporate profit.

PROFIT-SHARING WITH EMPLOYES.

When price is determined at cost, excluding any allowance for profit, there can be no profit to be shared with employes or anyone else.

In organized industry profit is a joint product of those who represent labor and capital. Under this condition, that principle of justice which awards the ownership of profit to its producers is never correctly applied unless it distributes the collective gain by awarding the same per cent. of profit to every employe on every dollar of wages earned as is paid to every investor on every dollar of his investment. Interest is the wage of capital. Wage is the interest of labor. After payment of wages has been made to labor and to capital, the divisible surplus, if any, should be distributed to each at the same rate per cent. on wages earned and capital invested dollar for dollar.

If it is true that the right to own a profit is the inducement that causes its production, and that when this right is denied the profit is not created, then it is undeniably true that all profit distributed to employes, as proposed, will be a social gain created without placing a burden on users on the one hand, or on investors on the other. Much talk there always is about the mutual interests of labor and capital. The application of the principle of profit-sharing can alone remove this mutual interest sentiment from the domain of theory to the domain of practical utility.

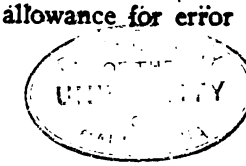
A system that secures to employes no share in the results produced by their skill, diligence and care in making use of their time, and of the materials intrusted to their use to be consumed by the processes of operation, causes the loss of the economic value of their thinking power applied as a profit-producing factor. The product of this profit-producing factor cannot be grasped by those who withhold reward, because it is not created. The loss of this profit tends to keep laborers poor and deprives society of the advantage of a correct individual distribution of a collective gain.

It is an encouraging sign of the time to note the tendency among the best managed corporations to recognize the justice of the principle that employes should be secure in holding their positions and gaining promotion by right of their own merit only, and that

they should be encouraged to use their best endeavors, and rewarded for so doing, for the success of the industry, by sharing in the prosperity they help to create. A notable example of intelligent appreciation of the service rendered by employes is furnished by the domestic policy of the Illinois Central Railroad Company, and many other large corporations. Such examples should exert a powerful influence on all industrial organizations and speed the day when the mutual interests of labor and capital will become a tangible fact in every instance of collective industrial production.

PROFIT-SHARING WITH THE MUNICIPALITY.

It is not possible to foresee the course of economic changes, and the results of operation, for a period of five years with sufficient accuracy to enable any Board of Municipal Regulation to so estimate cost and income that one will exactly balance the other year by year during the whole term. That one will exceed the other is inevitable. Sound financing requires that income should exceed costs, because the division of a surplus is an agreeable and profitable adjustment, while the division of a deficit among users for whose benefit it was created, through price being too low, is an impossibility. When estimates of costs and income are made to determine price, an allowance for error



should be included on both sides to make it certain that there shall be no deficit. If by good management and favoring circumstances costs are kept below, or income is increased above estimates, one or both, the resulting surplus should be divided equally between the corporation and the municipality. Such a division will give to each its full share of the value of all unforeseen and unassigned increments of economic gains. Such a final distribution of the net products of the industry to the creation of which users, the municipality, employes and investors have all contributed, removes the last remaining cause for antagonism or dissatisfaction.

Satisfaction for all parties in interest is a fundamental requirement to induce permanency of working conditions. Satisfaction can permanently exist only when it is based on reason made intelligent by a correct knowledge of facts, showing all requirements are adjustable at frequent intervals, by clearly understood and predetermined regulations, which give free expression to all desired changes, and operate to cause the full measure of every attainable advantage to go directly to the benefit of all the people.

EXISTING COMPARED WITH SUGGESTED CONDITIONS.

By a comparison of existing with the suggested conditions, an estimate may be formed of the proba-

bility of securing sufficient advantage to justify attempting to displace the present chaos or want of system with the system advocated.

The granting of unregulated power to municipal governments to own and operate industries is like placing the operation of a powerful and complicated machine in charge of a novice. He may make the machine operate, but he cannot produce the results an expert in the management of such a machine would easily secure. The chances are all in favor of the machine being wrecked and the operator being crippled or killed.

The granting of unregulated power to corporations to own and operate public service industries places them in position, and forces them to handle the business exactly as every man handles his private business; seeking every advantage they can grasp, giving as little and taking as much as they can get, because they have no assurance that their competitors or the public will deal with them on any different terms.

The system of regulation proposed will do for the public just what the licensing of engineers, the giving of diplomas to physicians, the admission of lawyers to practice is designed to accomplish. It will establish tests for fitness to perform the duties to be undertaken, inspect the work done, and make the right to the patronage of the people depend upon a record of

merit. Such a system will assist even the incapable to become capable, it will weed out the inefficient, and will secure to the capable full credit and reward for their accomplishments.

Under this system all reasons for granting competing privileges are rendered null, and all reasons of handling an industry for an entire municipality as an undivided unit are given full force. When price is determined by cost, price will be lowered by concentration, not by division.

By giving the power to determine all engineering and technical details to a Board of Municipal Regulation, the most capable officers of municipal governments are placed in position to serve the interests of users and of the municipality to the best of their ability. This city officials cannot now do.

By giving the power to municipal councils to determine price to users and the compensation to be paid to the city, limited only by cost plus a legally determined and limited profit, municipal councils are placed in position to apportion all advantages equitably between users and taxpayers in accordance with the adopted policy of the people, and to readjust this apportionment at stated intervals of short duration. This city councils cannot now do.

By the powers given to the Boards of Municipal Regulation and to municipal councils, all features of

construction, operation, prices for services and compensation to the city are made adjustable whenever occasion requires, or at short stated periods, the only limit being cost plus legal profit; this basis itself being flexible and determined by the actual results of operation and general economic conditions. Every improvement, every special local condition, every favoring change in general economic conditions that tends to make the service better, or cheaper, or to lower the rate of interest on the city's bonded debt, will carry the full benefit of its advantage unobstructed directly to the people. This is not the way the people's interest is served now.

By basing all calculations of cost on investment and providing that investment shall only be increased as the requisition of the Board of Municipal Regulation shall make additional investment necessary, all concern about existing issues of stocks and bonds, and all care about future issues is dismissed. When investment, not stocks and bonds, is made the basis on which cost is determined, and price is limited by cost plus a legal profit, the public has no interest in the stock and bond issues of any corporation. They become a purely private detail of domestic management. Existing conditions are vastly different from this.

By giving the municipality the option to take the

property of a corporation, at the expiration of any period of five years, by paying therefor only the amount of the authorized investment then being used as a basis for calculating cost, and providing if this is not done that the corporation shall be entitled to another five-year term of service, all questions as to the termination or extension of existing franchises are settled in a way far more advantageous to the people and without injury to corporations, than is now rendered possible by any existing law or ordinance, or by the proposals of those who are seeking to solve this problem in the interests of corporation or of the people.

By adopting a short term adjustment on an agreed and clearly defined basis, all antagonisms growing out of efforts to gain an advantage by corporations, or by the people, through fixing prices for services and rates of compensation to be paid to the city for fifty, or thirty, or twenty, or even ten years, and making franchises terminate at the same time, are avoided. Experience teaches how absolutely incapable those in authority at any given time are of forecasting the future with sufficient accuracy to enable them to determine what conditions shall regulate a public service, even ten years in the future, not to mention longer periods.

It is said that "coming events cast their shadows

before them" and that "the pathway of the future must be lighted by the experience of the past." Who can tell what the next ten years may bring forth by inventions and improvements in the arts that may and should be utilized for the benefit of the people through the public services rendered for their social and industrial benefit? Ten years ago it is said that the price of liquid air was from $2,000 to $3,000 per gallon, and very little of it could be had at any price. To-day, it is claimed that it can be produced for 3 to 4 cents per gallon. Steam power costs from $36 to $40 per year per horse power. Niagara water electric power costs from $15 to $20 per year per horse power. At present reported cost of production, liquid air power should cost from $7 to $10 per year per horse power.

The invention of a new electric glow lamp is announced by Professor Walter Nernst of Gottingen University, which, it is claimed, if put into general use, will reduce the cost of electric illumination more than one-half. If reports are true, where it now requires three watts of electrical energy per candle power the new method will use only ninety-six-one-hundredths watts. These are shadows cast before the commercial success of these inventions or discoveries.

If anyone will make a list of the facilities, mechanical contrivances and chemical products in common

use to-day, which are such marked features of our present social and industrial conditions, that were wholly unknown, or thought incapable of being brought into commercial use in the days of his earliest recollections, he will not fail to understand why all attempts to fix industrial conditions for the entire life of a generation by the measure of present accomplishments are denounced as conspiracies against the people. Swift as the course of events has been, there is no case where an important invention or discovery has been sufficiently developed and tested to justify its general adoption in a less period than five years. Under the regulations suggested, no obstacle is interposed to the adoption of any improvement at any time. For doing so no new law or ordinance will be required; only a requisition of the Board of Municipal Regulation. At the utmost limit, the only advantage a corporation could grasp would be the gain made by lowering cost for a period of five years, one-half of that gain would be paid over to the municipality and price to users for the next period of five years would be determined on the basis of the lower level of cost. There can be no conspiracy in this.

Attention should now be called to one fact which ought to modify the fervor of those who loudly demand that the people shall reap the benefits of all inventions and discoveries, of all improvements devel-

oped by science and the mechanical arts through municipal ownership. Not one of the improvements for the benefit of which they so loudly clamor has originated in the workshops or laboratories of a socialized industry. Should not this fact protect all industries from the palsy of profitless, heartless, operation, caused by the destruction of individual self-interest through an unnatural effort to gain an advantage for all by denying a justly earned advantage to those by whose genius or labor it is created? All advantages enjoyed by the people to-day, all they are likely to enjoy in the future century, have been, and must continue to be, secured by inducing the thinking power of each individual applied as a profit-producing faculty, to do its best through guaranteeing to him the ownership of the profit he may produce.

THE SOLUTION WANTED.

Those who advocate the municipal ownership and operation of public service industries declare that all they seek or desire is to secure justice for the people.

Those who are trying to obtain long-term franchises with fixed conditions claim that what they ask is necessary to secure justice for investors.

To one the municipal ownership and operation of public service industries appears to be the only way in which the fullest measure of advantages derivable

from such industries can be made a certain heritage for the people.

To the other legal rights acquired by legislative enactments granting long-term franchises fixing prices for services to be rendered, and limiting the compensations that can be demanded by the city, appears to be the only way in which permanency, security and profitable employment for capital can be safeguarded.

Both are wrong. Both are chasing an ignis-fatuus.

It is right that the people should have every advantage they can justly claim, but the object sought will be defeated by the means used to secure it, if the party of popular demands are permitted to intrust large, complicated and highly technical industries, to the management of municipal governments not properly organized and regulated to operate them successfully.

It is right that investors should have permanent security for the profitable use of their investments, but the object sought will be defeated by the means used to secure it if dependence is placed upon legal rights conferred by enactments secured in defiance of a protesting people; by enactments the people believe were corruptly procured; by enactments the people believe to be unjust. Amidst all of the uncertainties of the present situation one thing is certain. No corporate right secured for a long term of years by a

legislative enactment the people believe to have been corruptly procured, or that the people feel to be unjust, will ever live out the term of the grant. Attempts to maintain rights so secured will inevitably lead to a conflict between the people and the representatives of corporate power in which corporate vested rights, regarded by the people as vested wrongs, will be wiped out by the people's imperious vengeance, as crisp paper may be destroyed by a flame of fire.

Those who seek the elimination of interests, profit and private ownership through socializing public service industries, and those who are making interest, profit and private ownership odious through anarchy induced by unjust laws, are both equally wrong.

What the people and what investors really want and must have, if the best results are to be obtained for each, can and will be secured, but not on the basis advocated by extremists on either side. Those who are not guided by correct principles cannot be depended upon to formulate and apply the requirements of justice. They claim to want a solution that will be permanent, right and just, but their proposals do not contain the proper elements out of which such conditions can be created.

THE SOLUTION FOUND.

By combining regulations necessary to render the municipal ownership and operation of public service industries successful, if it can be made successful, with regulations necessary to render corporate ownership and operation of such industries just, the people will secure a fuller measure of advantage than it is possible for them to gain by any other means. Investors will secure permanency and profitable employment for their capital pledged by the faith of the people founded on reason made intelligent by a correct knowledge of the facts, showing established conditions to be right and just. A firmer base than this on which to rest corporate rights does not exist in human affairs.

Such regulations, and such a combination of regulations have been fully described. They furnish a solution of the problem which causes the people to say to investors: This is our business. For its purposes we will employ your capital under your own management. We will insure your investment against impairment; we will pay you a reasonable profit for its use while it is so employed, and when we are done with it we will hand it back to you dollar for dollar. All advantages that can be secured from the business beyond the fulfillment of our agreements with you shall be ours.

Such an offer the people can afford to make. Such

an offer investors can afford to accept. It holds the scales of justice in even balance. For both parties to the contract it is right and just.

HOW CAN EXISTING CORPORATIONS BE INDUCED TO ACCEPT THE TERMS PROPOSED?

No enemy is conquered until he has been made a friend. Existing antagonism cannot be overcome with a club. A conflict of interests cannot be merged into a peace by mutual agreement without the drawing of a contract acceptable to both parties. Let these proposals be most carefully examined by those who have the power to act. Let the terms suggested be proposed by the people, in the form of permissive legislation, so that corporate investors can have in definite, tangible terms the contract they are asked to accept, which will be of no effect unless accepted, and will apply only to such corporations as do accept it. Municipalities and corporations must be perfectly free to act individually, and as their individual interest may direct. It must be expected that acceptances for a time will be few and slow. If the principles of justice are correctly applied in the provisions of the permissive general state laws, and the municipal ordinances that must be enacted to give legal authority and effect to the regulations and terms here advocated, a grow-

ing recognition by the people and by corporate investors of the justice of the conditions so created, can safely be depended upon to bring about a complete transformation from the present condition of chaos and antagonism to a new condition of intelligent regulation, mutual confidence and satisfaction. Such a step of progress will be an epoch-making demonstration of the ability of the people to govern wisely. It will demonstrate that the American people have the judgment and the courage to do the right when the right is pointed out to them in a way to appeal to their sense of justice. Who will lead the people in an effort to win by educational methods this peaceful victory for right and justice?

RESOLUTION OF THANKS TO MR. FOOTE.

WHEREAS, Mr. Allen Ripley Foote, of Takoma Park, D. C., on invitation of Hon. John Warner, Mayor of Peoria, has attended this, the first convention of Illinois Municipalities, and has submitted for the consideration of the convention a paper expressing his views of "How the Franchise Question Should be Settled;" and

WHEREAS, Said paper contains propositions and suggestions of the highest importance to the Municipalities and people of the state of Illinois,

Be It Resolved, That this convention hereby tender to Mr. Foote its thanks for his courtesy in preparing and submitting the same and in supplying a copy of the paper for the personal use and criticism of each representative member of this League.

JAMES F. FARRELL,
Secy.-Treas. League of Illinois Municipalities.

Seneca, Ill., March 7, 1899.

PART II.

POWERS

OF

MUNICIPALITIES

A DISCUSSION

A PAPER SUBMITTED TO THE
COMMERCIAL CLUB, INDIANAPOLIS,
December 8, 1898.

PART II.

IMPROVEMENT OF MUNICIPAL GOVERNMENT.

The work done by the Committee of Ten of the National Municipal League and its "Report on Municipal Program" entitles the Committee and the League to warm praise and thanks from every student of municipal subjects and sincere worker for the improvement of American civilization.

The progressive development of civilization is dependent upon the morality and prosperity of the municipal homes of the people. From these centers of thought and concentrated energy issue the intellectual and economic forces that form and direct the public opinion and policy of the nation and of the world. No truths are clearer than those to the careful student of the influence of legislative and administrative government upon the welfare of the people. Civilized government is an expression of the morality and intelligence of a people ruled by the freely declared will of a majority. It can not be as good as those enjoying the highest development of morality and intelligence

wish, but it is a great deal better than those suffering from an imperfectly developed moral and intellectual life are prepared to voluntarily obey. The problem of improving government must be solved by rightly teaching correct underlying principles and inducing a majority to demand their practical application in legislation and administration. Correct education must precede correct legislation. The justice of judgments rendered according to law can not be more just than the law. An honest people can not do right if they are misinformed. The justice of the laws they demand and enact is not determined by honest intentions, but by honest intelligence. A majority sufficiently intelligent to correctly determine public legislative policy will be sufficiently intelligent to correctly determine public administrative policy. Every flaw in legislation and administration is the direct result of an exercise of power by those who are suffering from a defective moral and intellectual development. The cause of unintentional injustice is misinformation. The cure for unintentional injustice is correct information. A just government will be the realization of the ideal of all who wish and work for good government. More than justice awards no person has a right to demand. Less than justice requires no person should be compelled to take. The first lesson to be learned is that justice is established, not by de-

manding, but by doing justice.. Just individual conduct is the only immovable foundation for the justice of the state. The fundamental underlying principles that must be applied in all moral and economic legislation and administration, whether it be for a municipality, a state, or a nation, if government is to be just, do not differ in any way from the moral and economic principles that must govern individual conduct, if individual action is to be just. They are the principles of universal natural laws applicable throughout the entire sphere of human activity and overrule every legislative and administrative act, from lowest to highest. Intelligently recognized and complied with their application to social and industrial affairs must produce happiness if happiness is an attainable condition for human life. Unknown, partially recognized, imperfectly complied with, or deliberately disregarded, they produce discontent and suffering with relentless certainty. Every evil of which complaint is made has been caused by actions guided by the uninformed, the misinformed or the dishonest, instead of a knowledge of correct principle. These evils are punishments inflicted for ignorant or malicious failures to obey the requirements of universal, natural, moral and economic laws. The remedy for evils caused by disobedience is obedience. Obedience can result only from honest purpose, intelligently executed.

Upon this foundation all improvement in municipal government must rest.

ORGANIC LAWS.

Written constitutions express the best understanding of fundamental principles that imperfect moral and intellectual development will permit to become legally authoritative by concrete application in organic law. They show on what principles the ruling majority were in agreement at the time of their adoption. They establish standards by which the correctness of all legislative acts may be determined. They limit the power of the legislature. They safeguard the rights of the individual against the tyranny of the many. They derive authority from the consent of the ruling majority. They are the voice of the people and pronounce mandates that the legislative, administrative and judicial branches of government must obey. They are the supreme law of a municipality, a state, or the nation.

Natural moral and economic laws are the organic laws of the universe. If the principles of natural laws were universally understood and correctly applied, there would be no difference in the enacted organic laws of the nations. Differences between enacted organic laws are determined by the differences in understanding and applying the principles of natural laws.

The organic laws of all subordinate governments must be consistent with the principles of the organic laws of the government from which they derive their being, and they must be administered according to such laws, or they can not be authoritative, they can not bind the conscience nor command the loyal obedience of the people. The organic laws of a sovereign power overrule the laws of the government that are subordinate to it. The sovereign of the universe overrules the nations. The congress overrules the states. Legislatures overrule municipalities. National, state and municipal governments overrule the individual, but their rights of sovereignty are derived, not from the consent of the governed, but from the sovereign of the universe. When their laws are not consistent with the principles of natural laws, they can not bind the conscience, nor command the loyal obedience of the people, or of any individual.

In the domain of enacted laws, the organic laws of a nation occupy the position of universal sovereign within its jurisdiction. In like manner the organic laws of a state are endowed with sovereign authority within state limits, and the organic laws of a city are sovereign within the municipality. The extent to which the principles of universal natural laws are infused throughout the domain of enacted laws determines the character of the government. Imperfect infusion

results in bad government. Perfect infusion results in good government. Principles are the spirit of the law. They give life, authority, to all laws. In exact relation to the extent to which men admit the Spirit of God into their hearts, incarnate it, and give it expression in their conduct, are they good or bad, and government by them is good or bad.

SPECIAL LEGISLATION.[1]

Justice requires that the law shall not discriminate against the few in favor of the many, or in favor of the few against the many. An underlying principle in the organic law of every state should be: The legislature shall not enact any law affecting municipal governments not made applicable to all cities, or to all the inhabitants of cities. The only effectual safeguard against special legislation is to provide that there shall be none. All necessity for special legislation, real or imaginary, results from imperfections in the state's grant of power authorizing the inhabitants of cities to formulate and enact their own organic municipal laws. The remedy for such a defect is in perfecting the grant of power, not in special legislation. The principles that should be applied in the organic law of every municipal government do not change with the

[1] See Proposed Constitutional Amendment, Art. II and Art. III, Sec. 7.

number of inhabitants to be governed, therefore, there should be no difference in the grant of power to frame their own charter, given to the smallest or the largest municipal unit. All such governments are the agents of the state for the administration of the principles incorporated in the constitution of the state, and laws enacted by the legislature in accord therewith.

FREEDOM OF POLITICAL OPINION.

Any impairment of the right to freedom of political opinion must result in an impairment of personal liberty. Justice requires that merit—not political opinion or work—shall be the standard by which the fitness of any employee of the state, or of any government subordinate to the state, shall be determined. That person alone is free who holds his position by right of his record of duty performed. When the tenure of public employment and promotions in public service are determined absolutely by fitness for, or record of, duty performed, the principal cause of incompetent and corrupt municipal governments will be removed, and the liberty and dignity of honest labor will be effectively asserted. The right of an employee to hold his position by virtue of merit is as sacred as the right of an owner to hold property by virtue of legal authority.[1] Without opportunity labor can not be per-

[1] See Proposed Constitutional Amendment, Art. III, Sec. 6.

formed. Power to perform labor is an employee's property. An act depriving an employee of the opportunity to labor, without a just reason, is equivalent to taking property without just compensation. This the organic law should forbid. When properly forbidden, all public employees of the state, and of every subordinate governmental unit within the state, will enjoy freedom of political opinion. Public employees will cease to be slaves shackled by the necessities of poverty.

POWERS OF THE MUNICIPALITY. TAXATION.[1]

When the state grants to the inhabitants of municipalities the right to frame their own organic laws, within the limits of consistency with its constitution and general laws, it must be made certain that all individual rights are clearly defined and properly safeguarded by provisions in the organic laws of the state. The progress of civilization is dependent upon a proper safeguarding of rights to property against the unnecessary and unintelligent exercise of the arbitrary power of taxation. If there are any moral and economic principles more completely settled than others, they are:

(a) That all persons shall enjoy freedom of thought, freedom of speech, and freedom of action, with a due regard for the similar rights of others.

[1] See Proposed Constitutional Amendment, Art. III, Sec. 7.

(b) That all persons shall have the right to own the surplus products they may save from the results of their labor and investments.

(c) That property shall not be taken for the benefit of public or private users without just compensation.

These principles limit the power of taxation by the state. Any grant of this power to subordinate governments must be subject to these limitations. A state has no moral right,—it should have no legal right,—to grant the power of taxation, or of eminent domain, to a subordinate government without providing for an administrative supervision of the accounting designed to show the results of its use.

Prof. Goodnow says: "If there is anything which is settled in our constitutional law, it is that the taxing and the spending powers, through whose exercise governmental policy is largely determined, are legislative in character."

If there is anything which is clearly taught by experience, it is that those who exercise "taxing and spending powers" must be guided by correct accounts and reports or the governmental policy determined by their action will be misdirected by misinformation.

Mr. Deming says: "An alert and intelligent public opinion is a surer safeguard of popular liberties than any written constitution."

Public opinion can not be intelligent if the people

are not taught the truth. Every misstatement, whether ignorantly or maliciously made, is a disease germ that will, to the full extent of its power, deprive the mind of its ability to be intelligent.

A state in granting the right to exercise the arbitrary power of taxation should require every subordinate government to show with unquestionable clearness that the purposes for which it exercises its "taxing and spending powers" are just and necessary, and that the objects sought can not be gained with equal economic advantage by the employment of other means. It should also provide that no municipality shall sell a public service for less than the true and entire cost of production, and define beyond the ability of evasion how cost of production shall be determined. These checks upon the power of taxation are so clearly demanded by the requirements of justice for the protection of taxpayers, there should be no division of opinion regarding them.

POWERS OF THE MUNICIPALITY: CITY ACCOUNTING.[1]

The determination of public policy is the highest function of public opinion. A fundamental requirement for the creation of an intelligent public opinion is a properly devised system of uniform municipal accounting prescribed and audited by the state. Such

[1] See proposed Constitutional Amendment, Art. III, Sec. 4.

a system will furnish a permanent basis for all correct reforms of public policy. For this reason I place it before the consideration of "City Indebtedness" and "Municipal Franchises." Questions involved in these subjects can be correctly settled only by the aid of the records of experience furnished by a uniform system of municipal accounting.

My first suggestions on this subject are given in an open letter "To the Members of the American Economic Association," under date of January 2, 1891, transmitting a paper written for presentation to the association at its annual meeting held in Washington, D. C., December 26-30, 1890. From this paper I take the extract found in the Appendix under the heading of "Municipal Ownership of Industries."

(See Appendix No. 1.)

STATE CONTROL OF MUNICIPAL, POLITICAL AND INDUSTRIAL CORPORATIONS.

Under this title, in Chapter XIII of my discussion of the Economic Principles Involved in "The Law of Incorporated Companies Operating Under Municipal Franchises," written in 1892, I discussed the subject further as shown in the Appendix.

(See Appendix No. 2.)

COST OF SERVICE TO USERS AND TAXPAYERS.

I resumed the discussion of this subject in a paper

under the above title (read before the National Conference of Mayors and Councilmen, at Columbus, Ohio, September 29-30, and October 1, 1897), designed to explain an investigation of water, gas and electric lighting works recently undertaken by the United States Department of Labor. Extracts from that paper will be found in the Appendix.

(See Appendix No. 3.)

UNIFORMITY IN MUNICIPAL FINANCE.

An article under this title, by Prof. C. W. Tooke, Assistant Professor of the Public Law and Administration, University of Illinois, appeared in "Municipal Affairs," New York, for June, 1898, from which the extract in the Appendix is taken.

(See Appendix No. 4.)

RESOLUTION OF THE LEAGUE OF AMERICAN MUNICIPALITIES.

The League of American Municipalities at its second convention, Detroit, Michigan, August 1-4, 1898, had the subject "Uniform Municipal Accounting" under consideration and adopted a preamble and resolutions, as reported in an editorial in the Detroit Journal for August 8, 1898, under the title of "League of Municipalities." These resolutions are published in the Appendix.

(See Appendix No. 5.)

A STATE MUNICIPAL BOARD.

Under this title an article by Prof. J. W. Jenks, Professor of Political Science, Cornell University, appeared in "Municipal Affairs," New York, for September, 1898, the trend of which is shown in extracts published in the Appendix.

(See Appendix No. 6.)

INTRODUCTION TO OFFICIAL MESSAGES TO BOARD OF COOK COUNTY (ILLINOIS) COMMISSIONERS.

Until listening to the several papers and recommendations constituting "the report on municipal program by the special committee of the National Municipal League," the most recent utterance on this subject, of which I have knowledge, is found in the introduction to the "Official Messages to the Board of Cook County (Illinois) Commissioners, 1894-1898," with an introduction by D. D. Healy, covering the period from 1886 to 1894. This introduction is dated, "Chicago, September 15, 1898." As Mr. Healy was comptroller of Cook County from 1886 to 1894, and has been president of the Board of Cook County Commissioners from 1894 to 1898, inclusive, what he has to say on the subject of uniform accounting and its bearing on existing local conditions has peculiar significance and value. Extracts from his introductory chapter will be found in the Appendix.

(See Appendix No. 7.)

APPROVAL ASSURED.

The evidence here given is a guarantee of intelligent approval of the position taken by the committee on this vitally important subject. The value and purpose of a uniform system of municipal accounting requires no better exposition than is given by Dr. Albert Shaw, when he says:

"Your committee concurs with hearty unanimity in the opinion that in the exercise of functions under a broad and generous grant of power every municipality should be held to the very strictest obligation in its accounting, and that the accounts of all the municipalities in the state should be kept upon a prescribed and uniform plan, and should be submitted to a state officer, where they should be compiled upon a well-devised scheme, and when thus tabulated and placed in due comparison with one another that they should be printed and made easily accessible to all citizens. There is no check more salutary than the check of publicity. If our towns are disposed to go into the business of municipal gas works, for example, they should be held, like the English towns, to strict reporting, so that it may be readily seen which town manages its works best and which is doing worst. The results of public administration should also be brought into the most unsparing contrast with the results of private administration. With

good accounting, upon a clear and understandable system, with uniformity throughout the state, and, so far as possible, with a tendency toward interstate uniformity, with periodic reports and prompt and regular intermunicipal tables, a very stimulating and valuable check is at once placed upon unwise, dishonest or slovenly municipal administrations, and an opportunity is readily afforded for each municipality to benefit by the experience of all."

The necessity for such a system is graphically and convincingly set forth in the committee's summary of Art. III, Sec. 4, of its proposed constitutional amendment, which is as follows:

"CITY ACCOUNTING.

"The provisions in Article III, Section 4, constitute a first step toward greater uniformity in municipal bookkeeping, a reform which the committee regards as of the very greatest importance. At the present time the systems of keeping city accounts are so various and complicated, municipal bookkeeping is in such a chaotic state, that it is almost impossible for anyone, not an expert, to inform himself as to the financial condition of his own or any other city. It is impossible to ascertain whether any of the city's municipal works are yielding a profit or whether the sum reported as profits should, in reality, be charged

anticipation of the collection of taxes, unless the same shall not be paid within two years from date of issue."[1]

This rule is intended to create a margin of safety to prevent any sudden or unnecessary embarrassment in the management of a city's finances, or to provide for an unseen emergency requiring an unusual use of the city's credit. While no objection may be urged to such a rule, it would be well to guard its application somewhat by providing that no certificate of indebtedness shall be issued under this authority without a statement of the necessity for such an issue first being made and certified to by the comptroller of the city, indorsed "approved" by an affirmative vote of two-thirds of the members of council, approved by the mayor.

It will be noticed that the bonds authorized by this rule are designated "certificates of indebtedness or revenue bonds," and that a limit to the date of their maturity is implied by the qualification "unless the same be not paid within two years from the date of issue." In view of the fact that provisions for another class of bonds in the next preceding paragraph have direct reference to revenues other than those derived from taxation, while the provision now under consideration has reference to income exclusively derived from taxation, it appears that the intention of

[1] See proposed Constitutional Amendment, Art. III, Sec. 2.

the committee would be more clearly stated if the designation of this class of securities should be confined to the term "certificates of indebtedness."

Certificates of indebtedness are really municipal notes—short-time paper—issued on pledge of income to be anticipated. This is the reason why the rule excluding them from debt-statements made to determine the city's power to incur additional indebtedness is proposed and can be justified. The statement of this reason also shows why certificates of indebtedness not paid at maturity should be included in debt-statements made to determine the city's power to incur additional indebtedness. Such certificates will not remain unpaid after maturity unless there has been a failure to collect the income from taxation in anticipation of which they were issued. In such an event the amount required to complete the payment of overdue certificates of indebtedness must be made an additional charge on taxpayers to be provided for in subsequent tax assessments. As the limit of indebtedness is designed to prevent unduly burdensome tax assessments, every item of debt that must be provided for by tax assessment should be included in debt statements made to determine whether or not the city's debt has reached the limit designated by law. Such a statement can not be correctly made unless the city's accounts are correctly kept. It will not be correctly

made unless rules and principles to govern it are clearly stated in the organic laws of the state and of all governments subordinate to the state.

If the views and suggestions here expressed and made are approved, the proposal of the committee will read, when amended, as follows:

Certificates of indebtedness may be issued, in anticipation of income from the collection of taxes levied, to be paid at a time designated on their face, within two years from the date of issue. All outstanding certificates of indebtedness not due shall be excluded, and all overdue shall be included in every statement of indebtedness made to determine the city's power to incur additional indebtedness. Certificates of indebtedness shall not be issued unless a certified statement showing the necessity for their issue is made and certified by the comptroller of the city, indorsed "approved" by an affirmative vote of two-thirds of the members of council and approved by the mayor. All certificates of indebtedness shall be provided for and payable from the taxes levied for the year in which they are issued, and shall never exceed the amount of such taxes.

REVENUE BONDS.

The principle proposed by the committee is intended to exclude, from all debt statements made to determine the city's power to incur additional indebtedness,

"bonds authorized by the affirmative vote of two-thirds of the members of council approved by the mayor and approved by the affirmative vote of the majority of the voters of the city voting upon the question of their issuance at the next ensuing election of city officers for the supply of water or for other specific undertaking from which the city will derive a revenue."[1]

The wisdom of this principle must be determined in the light of the intention of the committee, stated as follows:

"Within its corporate limits, every city within the state shall have the same powers of taxation as are possessed by the state. It may license, tax and regulate all trades, occupations and businesses, and shall be vested with power to acquire, hold, manage and control property, perform and render all public services, and with all powers of government, etc."[2]

"The city may, if it deems proper, acquire or construct, and may also operate on its own account, and may regulate or prohibit the construction or operation of railroads or other means of transit or transportation and methods for the production or transmission of heat, light, electricity or other power, in any of their forms, by pipes, wires or other means."[3]

[1] See Proposed Constitutional Amendment, Art. III, Sec. 2,
[2] See Proposed Constitutional Amendment, Art. III, Sec. 7.
[3] See Proposed Municipal Corporations Act, Art. II, Sec. 10, last paragraph.

In its summary, explaining these provisions, the committee says:

"As regards the powers of the municipality, it is evident that the constitutional provisions proposed by the committee give to the municipality the widest possible discretion in determining the sphere of its activity. In fact, one of the main ends which the committee has had in view has been to assure to every city a large measure of freedom in the determination of local policy. In making this recommendation the committee is conscious of having departed from the accepted principles of the law of public corporations. The courts have always required a specific grant from the legislature to justify an exercise of local authority. In giving to the municipality all powers not inconsistent with the general laws of the state, the committee has endeavored to reverse the policy of the past and to create the presumption in favor of the broadest exercise of municipal powers." [1]

The intention of the committee can not be clearly understood without a careful study of the reasons given for it in its collective summary and the statements of its selected spokesmen. Continuing, the committee says:

"The history of municipal government clearly shows

[1] See Powers of the Municipality, Art. III, Sec. 7, Summary of Committee.

that the constant appeals to the state legislature for additional powers has been one of the most unfortunate influences in our public life. It has created the impression that the real seat of city government is in the state legislature rather than in the city authorities, and has developed the unfortunate habit of constant interference by the former body in local affairs."[1]

Mr. Horace E. Deming says, in his statement of "The Municipal Problem in the United States":

"We are now prepared for the statement of two of the principal causes of the failure thus far in the United States to secure efficient, economical, progressive municipal government, viz.:

"The municipality is not granted sufficient power to determine for itself all matters of local public policy, and to settle for itself the details of its scheme of internal local administration.

"The municipality as a subordinate administrative agent of the state is placed partly or wholly under the supervision and control, not of any state administrative department, but of the state legislature.

* * * * * * * * *

"One of the fundamental rules—the exceptions to it are indeed rare—of sound state legislation is that it

[1] See Powers of the Municipality, Art. III, Sec. 7, Summary of Committee.

should be confined to the enactment of laws applicable alike to every part of the state's territory.

* * * * * * * * *

"According to the American theory the authoritative control of the city's affairs is not in its citizens, but in the legislature. The city controls its own affairs only by sufferance of the legislature. The real seat of authority is not in the city, but the state legislature. The legal validity of an act by the city, e. g., issuing its bonds contracting for water-works, for a sewer or a pavement, regulating the use of its streets, is not determined by the will or expressed desires of its citizens, but by the will of the legislature as set forth in some statute. The city is not merely the creature of the legislative will, it is the helpless victim of legislative caprice.

* * * * * * * * *

"Familiar as are these facts and elementary as are these legal propositions that have been stated, their tremendous consequences in American municipal history can not be exaggerated. They constitute one of the fundamental reasons for the mismanagement of our cities, for the corruption of our legislatures and for the lack of municipal patriotism. Whether performing purely local governmental functions or acting as the governmental agent of the state, the city in the United States is the creature of statute.

* * * * * * * * *

"The primary function of a city, the fundamental reason for its existence is to satisfy the local needs of the community within its corporate limits. Let the municipal corporation, therefore, be clothed with ample governmental power to satisfy these needs. Let the legislature grant these powers once for all. Application to the legislature for additional governmental powers will then be unnecessary. If the city is granted these powers its citizens must be granted also the authority, subject only to limitations applicable to all cities in the state, to devise their own methods and adopt their own agencies for the exercise of these powers. The legislature will then have neither occasion nor excuse for interfering with the substance or detail of the local administrative methods.

* * * * * * * * *

"The leaven is working, and public opinion rightly directed will yet compel, not only the legislative grant of these powers, but the requisite liberty freely to exercise them. This means the right of the citizens of a municipality subject to limitations applicable to all citizens to frame their own scheme of local government, to carry their local public policy into practical effect by their own self-elected methods of administration, subject, to the extent that the local policy occupies the same field as the general state policy, to state administrative supervision."

"Your committee, while not working out the details, is of the general opinion that while a percentage limitation upon the debt incurring power of the municipal corporation may be a convenient sort of a check in a general way, such form of limitation is sometimes extremely embarrassing and not justifiable by the facts. It would seem, therefore, that there ought to be excepted from the indebtedness permissible under such a percentage limitation the liabilities incurred for the construction or purchase of water supplies, lighting plants or transit lines, where in the very fact of the monopoly character of such business it is wholly obvious that the rates can always be made both to pay operating expenses and also to meet interest and sinking-fund charges. In a broad way, therefore, it would be our judgment that for the sake of the progress of our municipal life there should be recognized in municipal finance a clear distinction between indebtedness which is, after all, no burden whatever upon the taxpaying power of the community, because altogether protected by the productive character of lucrative municipal assets.

"The bonds for such improvements as these new docks do not burden the taxpayers to the extent of a single penny, because the steamship companies will not only pay the interest and provide the sinking fund, but also something in addition as clear revenue.

* * * * * * * * *

"Where such enterprises are inspected and approved by duly qualified state authorities as being safely in the class of municipal assets to be designated as self-sustaining or productive, it would seem wise that they should be placed in a different category so that the municipality might have the same freedom as private corporations to enter upon these supply services, while not embarrassing itself in the necessary work of supplying schools, cleaning the streets and maintaining a high standard of sanitary administration.

* * * * * * * * *

"These articles (Article III, proposed Constitutional Amendment, and Article II, proposed Municipal Corporations Act) on the powers of cities intend, in the frankest way, to confer a very broad and general liberty upon the municipal corporation to do things, local and municipal in their nature, which do not interfere with the general work of the state government, nor with the rights and immunities of commodities or individuals. The power of the city to acquire property is made exceedingly broad, and the exercise of the right of eminent domain is conferred upon the city in a manner which your committee believes that the manifold work of the modern municipality really justifies and requires. For various purposes it is fre-

quently desirable that the municipality should own land outside of its own limits—such, for example, as the protection of the sources of its water supply, the maintenance of sewage disposal farms, the establishment of public cemeteries, the creation of outlying parks and pleasure grounds and so on. Your committee is of the opinion that for public purposes the municipal corporation may be safely intrusted with the power to exercise the right of eminent domain outside as well as inside the corporate limits. In the making of a public park we should think it reasonable to allow the municipal corporation at its discretion to condemn more land than it needed in order by the subsequent sale of environing portions to defray in part the cost of the park. And we are further of the opinion that the municipality should have the power at its discretion to pay for at least some part of the cost of a park, or other comparable public improvement, by a graduated system of special assessments levied upon benefited property."

Mr. Charles Richardson says, in his discussion of the subject of "Municipal Franchises":

"There is much force in the argument that so long as such voter can directly affect the character and conduct of his local government, his interest in it will be in proportion to the number, importance and directness of the different ways in which that govern-

ment serves and affects him. So far as he may come to regard it as his business agent he will want to guard and improve it. So far as it becomes the servile instrument of private corporations in which he has no voice or share, he will cease to respect or care for it. If we are anxious for the citizens to elect officials who will purify their local government and place its employees upon the permanent non-partisan basis of the merit system, it seems reasonable to urge that we should advocate measures which will rather increase than curtail the functions of that government as the only form of organization which can represent all the owners of public property, and in which every voter can feel that he is an active member, entitled to a voice in the management and a share in the profits and benefits.

"And it should be remembered that a large majority of the voters have no private property directly subject to assessment, and are therefore much more likely to take an interest in the management of their public property and public services than they are in any questions of municipal income or rates of taxation. If we want the people to develop higher civic ideals we must enlarge the scope and importance of their city government. If we want them to appreciate the advantages of intelligence and fidelity in their public servants, we must give those servants such duties and

responsibilities that incompetence and dishonesty can neither be concealed nor endured."

These explanations and statements make the intentions and the reasons of the committee very clear.

This division of the subject is not the place in which to discuss the public policy of the purposes of the committee, but rather the means by which they are to be obtained. The proposal is to remove all legal restrictions on the debt limit for debts incurred for the "supply of water or for other specific undertaking from which the city will derive a revenue," by excluding all such debts from debt statements made to determine the city's power to incur additional indebtedness. Authority to do this, incorporated in the organic law, will deprive the legislature of the power to restrict the issue of bonds by any city, so long as they are authorized as provided. This provision, and it is intended to be so, destroys an important check upon the issue of bonds by any city for the purpose indicated. The only check substituted for the restriction of a fixed debt limit including all debts is the provision that such bonds must be "authorized by the affirmative vote of two-thirds of the members of council, approved by the mayor and approved by the affirmative vote of the majority of the voters of the city voting upon the question of their issuance at the next ensuing election of city officers." Is this pro-

vision a satisfactory protection to the right to own property? It is clear from its explanations that the committee expect revenue-producing undertakings for which bonds may be issued to be "self-sustaining or productive," and that they shall not "burden taxpayers to the extent of a single penny," but the terms of this proposed constitutional amendment do not so declare. It leaves taxpayers in the position of endorsers. If the income is sufficient to cover all costs and provide for the payment of the bonds at maturity, it is well, but if a deficiency results taxpayers must make it good. This fact is clearly shown by the following clause in the proposed amendment:

"Provision shall be made at the time of their issue for raising a sum of money by taxation or otherwise sufficient to pay the interest upon all city bonds as it falls due, and to pay and discharge the principal thereof within twenty years from the date of their issue." [1]

This provision determines that the annual charge for interest, and the requirement for a sinking fund "to pay and discharge the principal within twenty years," shall be raised by taxation if not "otherwise" provided. This fixes the liability of taxpayers and leaves them dependent for protection upon the

[1] See Proposed Constitutional Amendment, Art. III, Sec. 2, second paragraph following clause 2.

method provided for authorizing the issue of bonds and the expectation that the debt will not "burden taxpayers to the extent of a single penny." What is the value of this protection?

Mr. Charles Richardson says: "And it should be remembered that a large majority of the voters have no private property directly subject to assessment, and are therefore much more likely to take an interest in the management of their public property and public services than they are in any questions of municipal income or rates of taxation."

Here is a clear statement that it is proposed to make the right to own private property in cities dependent upon the action of voters who "have no private property directly subject to assessment," and who are "much more likely to take an interest in the management of their public property and public services than they are in any questions of municipal income or rates of taxation." Is the taxpayer's confidence in the honesty and intelligence of voters who own no private property sufficient to make him entirely satisfied with this security?

A majority of the voters voting elect the members of council and the mayor, therefore, they can elect those who will favor the authorization of bonds, and a majority of the voters voting have power to approve the authorization for issuing bonds in the name of the

city. If it is true that "a large majority of the voters have no private property directly subject to assessment," it is possible, under the terms of this proposed constitutional amendment, for voters owning no property to place a mortgage upon all the property in a city, and this practically without limit as to amount, "for the supply of water or for other specific undertaking from which the city will derive a revenue." They can do this although every property-owner in the city should vote against the proposal. Non-owners are declared to be in the majority. The will of the majority determines public policy. This majority have the power to amend the organic law of the state, as proposed. This grant of power, not otherwise restricted, once incorporated in the constitution will establish industrial socialism, and open a way in which all property may be confiscated and socialized through the power of taxation.

Voters can acquire public property in only two ways. Property must be taken from private owners by taxation or by payments made for public services and socialized by transfer to the public. Is it safe to depend upon voters who "have no private property directly subject to assessment" to pay for gas works, street car lines, etc., through the prices they pay for the services rendered to them, when they can reduce prices below cost of production and compel tax-

payers to make good the deficit? Voters are being taught continuously that municipal ownership and operation means lower prices for all public services. Prices for service rendered by an undertaking entered upon under unchecked stress of such representations are sure to be made low. If the income derived from public service undertakings is sufficient for the payment of all costs of ownership and operation and a proper provision for a sinking fund, it is well, but if it is not, the user can not be assessed to make good the deficit, that is the special privilege of taxpayers. No others can be assessed. Every dollar so taken from private property-owners is confiscated and socialized or distributed to other private persons in payment for material and labor supplied for the municipal undertaking. Taxpayers receive no compensation for the tax they pay that is not enjoyed equally by all users who pay no tax on property. Therefore all property taken from taxpayers to make good deficiencies in income resulting from the ownership and operation of public service industries, is taken without compensation. Is this what the committee intend? Evidently not! How can it be prevented under the terms of the proposed grant of power?

A SATISFACTORY CHECK FOR THE PROPOSED GRANT OF POWER.

The proposed grant of power should be limited by the requirement that no product of, or service rendered by, an undertaking owned and operated by a municipality shall be sold at less than cost. Such a requirement is absolutely indispensable for the protection of the right to own property in cities if the proposed grant of power is given. It is entirely in accord with the intentions and purposes of the committee. It will make certain the conditions the committee assumes in justification of its recommendation that the proposed grant of power be given.

Dr. Albert Shaw well says:

"In a broad way, therefore, it would be our judgment that for the sake of the progress of our municipal life there should be recognized in municipal finance a clear distinction between indebtedness incurred in non-productive public improvements and the indebtedness which is, after all, no burden whatever upon the taxpaying power of the community, because altogether protected by the productive character of lucrative municipal assets."

To this proposition I give unqualified approval. Being in agreement on the fundamental principle that must be applied in separating indebtedness that must be included in debt statements made for the purpose

of determining a city's power to incur additional debts, it only remains to make it certain that debts intended to be "no burden whatever upon the taxpaying power of the community" shall not become a burden, and, if they do, that they shall not be excluded from debt statements. It is self-evident that a debt which is not a burden on taxpayers must be protected by the productive power of the undertaking. It is equally evident that all margin of difference between income and expenditures, if income is less than expenditures, must be paid by taxpayers and to that extent the debt will be a burden "upon the taxpaying power of the community." To prevent this from occurring charges for services rendered must contain a sufficient margin above cost to insure taxpayers against unfavorable fluctuations in estimated income or expenditures. Prices must include the entire and true cost plus a safe margin for profit or as an insurance against loss. This requirement must be included in the proposed grant of power if it is to operate as the commitee intends.

THIS CHECK IS ENTIRELY PRACTICABLE.

All public service undertakings are natural monopolies. Being monopolies, prices for services rendered by them can be determined with reference solely to the requirements of the service. In the cases under

consideration these requirements are that prices shall be so calculated that they will produce sufficient income fully to pay all costs of ownership and operation, plus a safe margin to insure taxpayers against unfavorable fluctuation in estimated income or expenditures, and to provide a sufficient contribution to a sinking fund "to pay and discharge the principal" of the debt incurred on account of the undertaking at its maturity. Competition is not permitted with public undertakings, therefore users have no choice but to pay the prices charged or to decline to use the service. This makes it certain if the costs of producing services under municipal ownership and operation are sufficiently low to induce the required use that the undertakings can be paid for out of the earnings without being any "burden whatever upon the taxpaying power of the community." This is the ideal of the committee. It is a condition that must be made certain for the protection of taxpayers, in the proposed grant of power. That this can be done is clearly demonstrated by the spokesman of the committee selected to discuss this subject.

Dr. Albert Shaw says: "It would seem, therefore, that there ought to be excepted from the indebtedness permissible under such a percentage limitation the liabilities incurred for the construction or purchase of water supplies, lighting plants, or transit lines, where

in the very fact of the monopoly character of such business it is wholly obvious that the rates can always be made both to pay operating expenses and also to meet interest and sinking-fund charges.

But one thing more is needed. Make it certain that rates shall be so made. It must be remembered that a majority of the voters to be vested with power to determine public policy in favor of socializing public service industries by making them municipally owned and operated monopolies; to be vested with power to issue bonds in the name of the city to cover the cost of the construction or purchase of such undertakings, can not be divested of the power to determine the rates a city administration shall collect in payment for services rendered unless the check is placed in the grant of power. Rates for service is a more important question of public policy than ownership and operation. If rates are just, it is a matter of indifference to users who owns and operates. The demand for public ownership and operation is a protest against a real or an imagined injustice imposed upon users by public service corporations. A just rate is one that will produce sufficient income for the purposes set forth. The proposed grant of power, unqualified, intrusts users with power to determine the rates they shall pay for the services rendered to them. It is affirmed on the part of the committee that,

in its judgment, human nature, the human nature of the users in interest, has become sufficiently civilized to be safely intrusted with this power; that the use made of this power will be just and right. If this be true, it is none the less necessary that statements of costs of ownership and operation shall be required and shall be true exhibits. Taxpayers require protection from the errors of ignorance as well as from the grasping greed of private users who "have no private property directly subject to assessment, and are therefore much more likely to take an interest in the management of their public property and public services than they are in any questions of municipal income or rates of taxation." Honest men will be just if they know the truth. Others have no right to be considered. The organic law must not only declare the principle that rates must be sufficient to cover all costs of ownership and operation, plus a margin for factors of error and the requirements for a sinking fund; it must define what shall be included in statement of costs made to determine rates.

COSTS OF OWNERSHIP AND OPERATION.

Having developed the subject to this point it is now possible to show the supreme importance of a uniform system of municipal accounting to be prescribed and audited by the state. Those who pre-

scribe the accounting system must prescribe what items shall be included in all statements of costs. This duty must not be left to the incompetent nor the dishonest. Upon the correctness of its performance depends the correctness of the information that will make possible and guide "an alert and intelligent public opinion, which is a surer safeguard of popular liberties than any written constitution." It is more than this. It is the only safeguard of popular liberties. In a government by the people public opinion makes and unmakes written constitutions. The proposal under consideration is that public opinion shall be so educated that it will unmake existing constitutions and dictate new ones in which there shall be incorporated the provisions suggested by this National Municipal League. That my contribution to this end may carry the full force of matured thought, I may be permitted to show that the position I now hold was taken eight years ago, and that in the light of all the discussions to which the question has since been subjected, I know of no reason for changing it. In 1889-90, I was employed to draft the schedules to be used for the investigation of the electrical industries by the eleventh United States census. In those schedules, as adopted and used, the following items are included in fixed charges as a part of the costs of ownership and operation.

The schedules for public service corporations and for municipally owned and operated undertakings are identical in this particular.

"GENERAL FIXED CHARGES.

"Insurance, total amount of annual premium..$——
"Interest, per cent. on total investment, annual amount .....$——
"Taxes, rate per cent., annual am't.....$——
"Patent licenses and royalties, annual am't.....$——
"Franchise licenses and royalties, annual am't.$——
"Depreciation on buildings, rate per cent., annual am't .....$——

In the subdivisions of "Steam Plant—Station Expenses:" "Electric Plant—Station Expenses:" "Expenses of Distribution:" and "Water-Power Plant Expenses," provision was made for depreciation on the investment in machinery and equipment so that, as a result, depreciation on total investment was provided for.

These schedules were available for those interested in the discussion of this subject when I invited the American Economic Association at its annual meeting held in Washington, D. C., December 26-30, 1890, "to appoint a committee to designate the divisions of accounts, and the items to be included in each, that should be kept by corporations performing quasi-public services," and to provide "that said divisions be

so made that the effect of each essential economic factor will be shown, to the end that correct statistics may be obtained through a uniform method of accounting, as a basis for intelligent, economic discussion and legislation."

Having made this request I then affirmed my position on this question as follows:

"We must first agree on what items constitute cost, then must see to it that these items are honestly included in all statements of cost. This done, we are in a position to take intelligent action, and may then award the contract to the municipality or to private enterprise, whichever, in the light of facts so obtained, may appear to be to the best economic advantage of the greater number of people, those who toil and are poor."

In my discussion of the economic principles involved in "The Law of Incorporated Companies Operating Under Municipal Franchises,"[1] written in 1892, I say (page 94) "The state should stipulate that 'fixed charges' shall include all taxes paid to the municipality or state, if such there be; cost of insurance against risk of loss by fire and injuries to employees and others; a necessary per cent. on income to cover depreciation of property in use and contingencies; a necessary per cent. on income to provide

[1] Published by Robert Clarke Company, Cincinnati, O.

a fund to defray the expenses of experimenting with and testing the merits of improved methods, machinery or materials, with the view of rendering the plant, its lines and connections, more efficient and safe in operation and the service more economical and at lower cost for the users; and interest upon the full amount of the approved investment at the same rate per annum as the municipality pays on its indebtedness."

In the schedules adopted by the United States Department of Labor (1897) for its investigation of water, gas and electric lighting works, privately or municipally owned and operated, the following designations are found:

"Fixed charges:

"a. Interest on total investment at rate paid on bonds .....$——

"b. Annual amount paid for licenses or royalties.$——

"c. Taxes paid for the year as shown by inquiry 123, general schedule .....$——

"d. Annual depreciation on cost of works.....$——

I submit this evidence to this National Municipal League with the request that its committee shall either approve my position on this question of costs of ownership and operation, or clearly state its own position so that the public it is our mutual desire to correctly educate may intelligently judge which is in

the right, if there is any difference,—I think there is none,—between us.

I submit this evidence to the taxpayers of this country who must rightly understand this subject if they are to take intelligent action to prevent the confiscation of their property through the adoption of an unsound public policy by reason of misinformation.

I submit this evidence to the users of public services throughout the country that they may confirm my opinion that when their action is guided by a correct knowledge of the facts it will be just and right.

I firmly believe, when the fundamental importance of this subject is rightly understood, that the entire membership of this National Municipal League, every taxpayer and every user of public services in this country will approve, without reserve, the affirmation adopted by the League of American Municipalities, at its annual meeting held in Detroit, Mich., August 1-4, 1898, which is as follows:

"A uniform system of accounting applicable to every municipality in a state, formulated and audited by the state, designed to show the entire and true costs of all public utilities owned and operated by municipalities is the most effective check on unwise expenditures, and the most reliable guide to correct municipal policy that can be devised."

All that has been here said on the subject of correct

uniform accounting confirms in the strongest manner the conclusions of the committee in its summary when, referring to the provisions of Article III, Section 4, of the proposed constitutional amendments, it says:

"They constitute a first step towards greater uniformity in municipal bookkeeping, a reform which the committee regards as of the very highest importance. At the present time the systems of keeping city accounts are so various and complicated, municipal bookkeeping is in such a chaotic state, that it is almost impossible for any one, not an expert, to inform himself as to the financial conditions of his own, or any other city. It is impossible to ascertain whether any of the city's municipal works are yielding a profit or whether the sum reported as profit should, in reality, be charged to depreciation or to interest and sinking fund."

Having stated my views, I suggest that Clause (2) of Article III, Section 2, of the proposed constitutional amendment be so amended that it will read as follows:

(2) Or bonds authorized by the affirmative vote of two-thirds of the members of council approved by the mayor and approved by the affirmative vote of the majority of the voters of the city voting upon the question of their issuance at the next ensuing election of city officers for the supply of water or

for other specific undertakings from which the city derives a net revenue, but whenever an undertaking fails to produce a net revenue, all bonds or other obligations issued or incurred for its account shall be included in every statement of the public debt made to determine the city's power to incur additional indebtedness. No city shall sell the products of or services rendered by such undertakings at a price or prices that will not produce sufficient revenue fully to pay all costs of ownership and operation plus a sufficient amount effectually to provide against unfavorable fluctuations in estimated income and expenditures and an annual contribution to a sinking fund required to fully pay all bonds issued on account of the undertaking at maturity. In determining the cost of service in the case of any undertaking from which a revenue is derived, interest on the investment at the rate paid by the city on its bonded debt; the cost of insurance against losses by fire, accidents, and injuries to persons; the amount of taxes relinquished by reason of municipal ownership; and a percentage on investment to be determined by the state comptroller to cover depreciation, shall be included in fixed charges as items of cost, in addition to all other costs of ownership, operation and administration.

BONDS EXCLUDED FROM DEBT STATEMENTS SHOULD NOT BE PAID BY TAXATION.

The last paragraph of Clause 2 of Section 2 of Article III of the proposed constitutional amendment is as follows:

"Provision shall be made at the time of their issue for raising a sum of money by taxation or otherwise sufficient to pay the interest upon all city bonds as it falls due, and to pay and discharge the principal thereof within twenty years from the date of their issue."

The purpose of a debt limit is to protect the right to own property from the rapacity of taxing and spending legislative powers.

Mr. Horace E. Deming says: "From the beginning of our government the legislative branch has been the great usurper of power and the most dangerous to popular liberty."

The distinctive characteristic of a civilized government is the protection it gives to personal liberty and the right to own private property. When it is realized that all private property is held subject to the sovereign power of taxation and of eminent domain, it will be seen that a supreme necessity exists for a clearly defined and declared public policy fixing a limit upon the exercise of these powers by the ruling majority

of municipal councils or state legislatures. This necessity has been dealt with in many states by fixing the debt limit of subordinate governments at a specified per cent. upon the assessed value of the property subject to taxation within their respective jurisdictions. The proposed constitutional amendment has been devised to extend this debt limit by providing that certain classes of indebtedness shall be excluded from debt statements made to determine a city's power to incur additional indebtedness. The reason given for such a measure is that the bonds to be excluded represent investments in productive undertakings and are not a burden upon taxpayers. The debt limit having been devised to protect taxpayers, a debt that is not a burden on taxpayers may properly be excluded from a statement of debt made for their protection.

If municipal undertakings are to be initiated and carried on, upon the assumption that they are not to be a burden upon taxpayers, it will be the part of wisdom to provide in the conditions under which bonds are issued to secure the capital to be invested that they shall not be a mortgage upon taxpayers' property. The proposed constitutional amendment declares that "at the time of their issue" provision shall be made to pay the interest and principal of all city bonds. These bonds may be of two classes. (a) Those issued for non-industrial purposes, the entire

costs of which are a direct burden on taxpayers. (b) Those issued for industrial purposes, the costs of which are to be paid by users of the service. The first class are to be included, and the second class excluded from debt statements. There is a defect in the proposal, however, in that it fails to give any security whatever that bonds of the second class shall not become a burden on taxpayers. An undertaking may be entered upon in the most unquestioned good faith, that income from services sold will pay all costs and provide for the payment of the principal, but human calculations are not infallible. Expectations in these respects may or may not be realized. If they are not realized, where is the provision in this proposal to prevent the payment of interest and principal from becoming a burden on taxpayers?

If those who advocate this proposal wish to carry it out in good faith they should provide that bonds issued for industrial undertakings shall only be secured by a mortgage on the franchise, property and income of the undertaking, and shall not be provided for by taxation. The mortgage should give the bondholder the right to foreclose, in case of failure to pay. This will effectually prevent such bonds from ever becoming a burden on taxpayers. It gives a municipality "the same freedom as private corporations to enter upon these supply services," and makes it certain that

it will not thereby "embarrass itself in the necessary work of supplying schools, cleaning the streets and maintaining a high standard of sanitary administration." If I rightly understand it, such a provision will give practical effect to the principle advocated by and the expressed intention of the committee.

To complete Clause (2), Section 2, of Article III, proposed constitutional amendment, the following provision should be added:

All bonds to be excluded from debt statements shall be secured only by mortgage upon the franchises, property and incomes of the undertakings in behalf of which they are issued, and the holders of such bonds shall have the same rights of foreclosure as are enjoyed by the holders of bonds issued by private corporations.

LEGISLATIVE CONDITIONS FOR MUNICIPAL AND PRIVATE CORPORATIONS SHOULD BE IDENTICAL.

If a correct public policy is to be created regarding the most effective method of securing the best public services at the lowest practical price to users, it must be based on a correct knowledge of all comparable facts. That facts may be comparable all conditions pertaining to franchises and accounting that can be determined by legislation should be made identical for both classes of corporations, municipal and private.

That the same system of accounting may be justly required from each they must enjoy the same protection in franchise conditions. It is not just to make a comparison between a municipal corporation financed as a perpetual monopoly and a private corporation financed as a short-termed competitive undertaking.

I yield leadership to no one in my advocacy of the fundamental importance of correct public accounting by municipal and private corporations, but it should always be remembered that the principle of public accounting is not compatible with the principle of competition. One or the other must be eliminated. If it is correct public policy to rely upon competition as a means of securing "reasonable rates," it is unsound public policy to require competitors to expose their accounts as public accounting, if required, would compel them to do. Such an exposure would destroy competition. When public policy eliminates all idea of competition from public service supply, and depends upon the operation of purely economic causes to secure the best services at the lowest practicable price to users, it will be in a position to demand correct public accounting by public service corporations.

The fundamental error in enacting legislation is found in unintelligent efforts to apply the principles of competition to the management of natural monopolies. Instead of recognizing the monopoly char-

acter of their business and constituting them in fact, as they are in nature, public service corporations, private corporations have been formed and their business has been recognized and dealt with as a private enterprise subjected to all the uncertainties of competition, unintelligent legislative control, handicapped by incomplete short-termed franchises. The accounts of such corporations are private accounts. Unless public policy grants the franchise protection enjoyed by municipal corporations to public service corporations, it can not apply to the accounts of these corporations the same requirement that should be made for municipal corporations. When franchise conditions for the two classes of corporations are made identical, the system of accounting required from each may be identical. When new grants are made upon this basis, both classes of corporations should report to the state comptroller so that, in the discharge of his duties, he can compare both classes of accounts, item with item, and make a comparative statement for the information of the public that will clearly demonstrate the relative economic efficiency of the two systems. To do this fairly, with favors to none, with justice for all, will be to render a public service of high importance of which there is urgent need.

When such conditions are established, there should be no legislative obstacles to prevent any municipality

from assuming the ownership and operation of any public service industry, or to dispose of them to public service corporations, which ever way public policy, correctly informed by the records of experience written by impartial authority showing the entire truth, shall decide is for the best interests of the people locally interested.

Until public policy decrees that the taxing and spending powers of subordinate governments shall be checked by a uniform system of accounting prescribed and audited by the state; that in the case of all public undertakings for the supply of services to be paid for by users the accounts shall be designed to show the entire costs of ownership and operation, definitely specifying the items to be included in cost and providing that no public service shall be sold for less than cost, there can be no correct basis for intelligently determining broad and vital questions pertaining to franchise grants.

Until there is a clearly defined public policy on these questions determined with special reference to fixing the limit of municipal indebtedness, a discussion of the provisions to be contained in franchise grants can not be profitably undertaken.

If municipal ownership and operation of public service industries is good public policy no more franchises should be granted to private corporations. There

are a sufficient number of examples of municipally owned and operated industries to settle this question beyond the possibility of an intelligent doubt. The vital requirement of existing conditions is the grant of legislative conditions to public service corporations, identical with those granted to municipal corporations in order to institute competition between the two systems on equal comparable terms, and the development of authoritative statistics which can only be supplied by a uniform system of accounting as proposed. How can the assumption be maintained that economic gains have been secured by the people in any locality through the public ownership and operation of the industries when the present system of keeping city accounts as described by the committee is:

"Various and complicated in such a chaotic state, that it is almost imposible for any one not an expert to inform himself as to the financial condition of his own or any other city. It is impossible to ascertain whether any of the city's municipal works are yielding a profit or whether the sum reported as profit should, in reality, be charged to depreciation or to interest and sinking fund."

PUBLIC POLICY SHOULD PROTECT EXISTING INVESTMENTS.

It is strange that a committee which recognizes the monopoly character of public service industries, and

is well acquainted with the public policy of foreign countries regarding them should be silent on the vital question of adequate protection for existing investments. In European countries and some states in this country, a municipality is required to buy the existing plant and equipment in use for the supply of the service it seeks to monopolize.

This requirement is not only in accord with the principles of justice that should govern all dealings with existing investments, it is also in accord with the requirements of the monopoly character of the business. While this requirement gives direct protection to existing investments, it is fundamental to the right to own private property. If the assault on the right to own private property now being made in many forms is permitted to succeed in one particular, strength will be gained from that success to make the attack at some other point more determined.

The reliance for success upon municipal ownership of public service industries is upon the "monopoly character of the business," yet, when the committee formulates its provisions for franchise grants to public service corporations there is no stipulation that such grants shall be exclusive. If it is not intended to permit competition, why is there a failure to make the grant exclusive?

There is not a city in the country in which there

does not exist a plant and equipment for the supply of every public service under consideration.

There is not a city in the country where a permanent gain can be made for users and taxpayers by the grant of a franchise permitting competition with an existing plant and equipment. When public opinion is correctly instructed public policy will forbid the granting of another competing franchise.

All students of this subject agree that public service industries are natural monopolies. Every attempt to apply the principles of competition to them tends to prevent the operation of purely economic causes which alone have the power to secure for the people the best services at the lowest practicable prices. To permit the duplication of plants and equipments, in any event, for the purpose of the same service, is an economic crime.

The duplication of the plant and equipment of a private corporation by a municipality is not only an economic crime, it is the muredr of its offspring by the government that gave them birth on the protection of which they must rely for existence.

VOLUNTARY *vs.* COMPULSORY INVESTMENTS.

There is one marked difference between the two systems of supply by municipal and private corporations. The capital of private corporations is secured by vol-

untary investment, that of the municipal corporation by taxation. In the first case the hope of securing a legitimate profit induces the investment. In the second case the right to own property is attacked by the taxing and spending powers for the purpose of eliminating corporate profit for the benefit of users. Not for the benefit of taxpayers whose property is mortgaged to secure the capital required. This is the taking of private property for the benefit of others without just compensation. Are the people of this country ready to see this done? When legislative conditions for the two systems of supply are made identical, it will be determined that "reasonable rates" to be charged by municipalities must be measured by their cost of ownership and operation, and that "reasonable rates" to be charged by private corporations must be measured by their costs of ownership and operation plus a reasonable profit. When the difference in effectiveness is considered, between political and private management, it is probable that the element of municipal waste will exceed the element of corporate profit. If this be true it demonstrates that no saving whatever can be secured for users through municipal ownership, in comparison with a properly regulated industrial monopoly.

Dr. Albert Shaw, speaking for the committee, says:

"What we contend for is that all these matters af-

fecting in vital ways the very life of the community, such as the water supply, the lighting supply, the cleaning service, methods of transit, and others more or less analogous, the municipal corporation ought to be in as good a position under the law as any private corporation to engage directly in the business of supply."

* * * * * * * * *

"When such enterprises are inspected and approved by duly qualified state authorities as being safely in the class of municipal assets to be designated as self-sustaining or productive, it would seem wise that they should be placed in a different category, so that the municipality might have the same freedom as private corporations to enter upon these supply services."

The contention of the committee is that municipal corporations shall be as free to engage directly in the business of supply as private corporations, and it provides that this freedom shall be secured by mortgaging taxpayers' property to secure the capital required. If this power is granted to municipal corporations unchecked, as is proposed, it will be a body blow to the right to own property in cities. There will be no way in which to limit the amount of bonds for the ultimate payment of which taxpayers' property would be liable. It is understood that public service undertakings are expected to be "self-sustaining or pro-

ductive," but if they are not who but taxpayers can be called upon to pay the debts incurred in their behalf?

My contention is that the principle of voluntary investment shall be preserved and utilized to the utmost limit of practical application by granting private corporations legislative conditions identical with those proposed for municipal corporations, and by providing that municipal corporations shall secure capital for the ownership and operation of public service industries only by mortgaging the franchise, the property, and the income of the undertaking. This provision substitutes, for taxpayers' property, as security, the need and the ability of the user to buy the service. It substitutes bondholders for shareholders, and preserves the principle of voluntary investment. Bondholders are voluntary investors. That the security offered is considered sufficient by the committee is clearly shown by Dr. Shaw's statement:

"In the very fact of the monopoly character of such business it is wholly obvious that the rates can always be made both to pay operating expenses and also to meet interest and sinking fund charges."

If this security is not good enough for bondholders why should taxpayers be compelled to stand back of it and have their property held as additional security for the payment of the debt? Property may pass from

the ownership of one to another, but its location can not be changed. All taxable property located within a municipality is mortgaged for the payment of municipal debts. In its final analysis the proposal of the committee is to secure capital necessary for the construction and operation of public service plants and equipments by taxation, instead of by voluntary investment, in order to substitute political for private management.

Taxpayers who desire to safeguard their right to own property must insist that undertakings for the benefit of users shall secure capital on pledge of the security users can give, not by mortgaging property they do not ow

A SOLUTION OF PRESENT PROBLEMS DEMANDED.

In the great cities of Milwaukee, Chicago, Cleveland, Indianapolis and San Francisco, and in a multitude of cities and towns scattered throughout the land there are present problems of vital local importance requiring solution to determine just relations between the people, their municipal governments and public service corporations. In failing to furnish a correct solution for these questions the committee has not been the equal of its opportunity.

That these questions can be solved, by the application of correct economic principles, to the satisfaction

of those who have investments in public service corporations and the permanent advantage of users and taxpayers, can not be doubted.

That they can be so settled without the use of a dollar for the corrupt purchase of a vote at the polls, in a municipal council, or in a state legislature, I firmly believe. That they can be settled in the absence of a correct public policy resulting from the correct education of the people is impossible. The people desire justice no more ardently than they desire to be just. To discern just principles and to do justice is the highest function of mind. A mind miseducated by misinformation is incapable of justice.

The property quality of things of value rests on the consent of society. The moral teachers of the world for unnumbered centuries have been teaching honesty as a principle. It is the chief glory of economic science to teach honesty as a practice. Upon the character of the people developed by the teaching and practice of honesty civilization is based. An honest man will not take by force of law the property of another and convert it to his own use and benefit without giving just compensation therefor. An honest man will not use the property or the services of another without paying a just price for such use. Upon these plain business propositions the public policy of this nation has been founded since the day of its birth.

Shall we now decide "to reverse the policy of the past and to create the presumption in favor of the broadest exercise of municipal powers" for the sole purpose of substituting compulsory investments for voluntary investments and political administration for private corporate management of public service industries, with no greater inducement in view than to benefit users by enslaving capital in a vain effort to save for them the narrow margin of a just corporate profit? Is this the way to broaden the sphere of liberty and confirm the domain of freedom? That man who would use the power of government to compel public service corporations to work without a just profit would again legalize the slavery of labor. While there may be those whose grasping private greed will permit them to enjoy a service sold to them under compulsion of law for less than its cost, in which case it must be clear to any mind that shareholder, bondholder or taxpayer must pay the difference between price and cost, I believe they are the exception and not the rule among American citizens. That man only is free who pays value received for all he accepts from others. That man only is independent who holds his opportunity to labor by authority of his own merit. The interests of labor and capital are one and indivisible. Apply "the economic law of labor

and property"[1] to the solution of public service problems, and all difficulties in the way of their just and permanent settlement will disappear as morning mist before the rising sun.

"No general question of governmental policy occupies at this time so prominent a place in the thoughts of the people as that of properly controlling, without unnecessarily checking, the growth of corporate power."[2]

"That state which first succeeds in intelligently changing its system, or want of system, of organizing and controlling municipal, political and industrial corporations, by adopting a system in conformity with the outlines herein given, will soonest establish the conditions that will induce the greatest degree of prosperity and well-being for its municipalities and their inhabitants. So conditioned and so controlled, municipal industrial monopolies will become the friends and servants of the people, and will render the best services of which they are capable at the lowest obtainable cost to users."[3]

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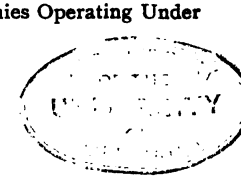
[1] See "The Law of Incorporated Companies Operating Under Municipal Franchises," Chapter IV, "The Economic Laws of Labor and Property."

[2] Preface to "The Law of Incorporated Companies Operating Under Municipal Franchises."

[3] See "The Law of Incorporated Companies Operating Under Municipal Franchises," page 111.



APPENDIX No. 1.

MUNICIPAL OWNERSHIP OF INDUSTRIES. (1891.)[1]

If the economic advantages obtained by the community through the price paid for the service is to decide the policy of municipal ownership of industries, then those who advocate private ownership must accept the issue on this basis, and be ready to show that they can and will perform the same service, for the same price that the community pays for it, under municipal ownership and administration.

A condition precedent to the settlement of this question is an agreement on what constitutes cost of service under municipal ownership. It was to establish this agreement that I offered the resolutions Saturday evening last, after Prof. Henry C. Adams had read his admirable paper on "Statistics as Means of Correcting Corporate Abuses." Please notice carefully the wording of those resolutions. They are:

"Resolved, first, That a committee be appointed to designate the divisions of accounts, and the items

[1] Extracts from a paper addressed to the members of the American Economic Association, January 2, 1891.

to be included in each, that should be kept by corporations performing quasi-public services.

"Resolved, second, That said divisions be so made that the effect of each essential economic factor will be shown, to the end that correct statistics may be obtained through a uniform method of accounting, as a basis for intelligent economic discussion and legislation."

We must first agree on what items constitute cost, then we must see to it that these items are honestly included in all statements of cost. This done, we are in a position to take intelligent action, and may then award the contract to the municipality or to private enterprise, whichever, in the light of facts so obtained, may appear to be to the best economic advantage of the greater number of people, those who toil and are poor.

Assuming that no economist will take issue with me regarding this fundamental basis for an agreement, I will advance one step further and claim, until such a basis is agreed upon and the accounts are made in accordance with its requirements, there shall be a suspension of judgment and action. By adhering to this policy all parties will not only avoid the liability to get in positions from which they will have to recede when the statements of cost are correctly made, but large invested interests will cease to suffer

from attacks that would not be made if those who utter them were better informed.

I urge this claim upon you for another reason. I, like all not to the manner born, have a lofty ideal of nobility. I feel it to be a personal belittlement to be obliged to lower it. According to my ideal, the noblest men are they who worthily fill the station of teacher. What wonder is it then, that I should feel hurt when I see some that occupy such stations, giving currency to statements that tend to lessen the respect for, and therefore the influence of, those who utter them. When professors of economy give currency to statements of the cost of production which practical men, in the light of the accounts they are daily keeping, know are not true, they must not wonder if they find themselves and the educational institutions with which they are connected, held in small estimation. The profession can not afford this any better than business interests can afford to suffer from the attacks of the uninformed. Here again, I think, we have a point of agreement. Let us join hands upon it and take as our guide to action—whose cause truth will not serve, is lost. That truth may be established, no statement of a demonstrable fact should be made without an analysis of the conditions to show that the conclusion reached is correct.

Having in part explained my views and position

to you, I feel it right to tell you I look upon statistics as being as potent a means of correcting the abuse of corporations, as far as correcting abuse by corporations. To sustain myself in opposing the principle of governmental ownership of industries, in whatever form it may take, I invoke the same power as do those who favor that principle.

Take the accounts of all the industrial plants owned by municipalities, and write them up completely from the date of their initiative until now, and you will find that the communities that have entered upon those experiments have not gained an economic advantage. Private enterprise stands ready to-day to take over every one of these plants and perform the service at the same price such accounts will show it is costing the community where it is rendered, provided the municipality will grant the same economic advantages assumed by itself, which are:

An untaxed investment, an untaxed, exclusive and perpetual franchise.

APPENDIX NO. 2.

STATE CONTROL OF MUNICIPAL, POLITICAL AND INDUSTRIAL CORPORATIONS. (1892.)[1]

1. The state is the creator and therefore the sovereign of municipal, political and industrial corporations. It creates such corporations in order to serve, to the best advantage, the public welfare. It is the duty of the state fully to advise its inhabitants regarding all particulars pertaining to their interests that such trusts are incorporated to serve.

The controlling power must be superior to the interests to be controlled. The fundamental powers of a state are limited to safeguarding political and industrial equity between its citizens, or the groups of citizens that are created legal persons by its authority. This safeguarding necessarily requires judicial and impartial relations to the subject of control. Such relations can be maintained only where the controlling power has no interest in the subject of control, either as a beneficiary, an owner or user of its services. Municipalities have no powers except such as are specifically granted to them by legislatures. Legislatures have complete sovereign power, limited only

[1] The Law of Incorporated Companies Operating Under Municipal Franchises. Chapter XIII.

by the express limitations of their respective state constitutions. They may revoke municipal charters or modify their powers.

Power to control measures the duty to control. Power to create a trust implies the power and duty to require an accounting fully showing how the trust is administered. A failure to require such an accounting is a breach of trust on the part of the state. A failure to render the required accounting is a breach of trust on the part of the trustees of municipal, political or industrial corporations.

2. An accounting, fully to show that a trust is properly administered, is a fundamental requirement for the satisfaction of the grantor and the beneficiaries, and the protection of the trustees. Such an accounting is indispensable as a basis for an appreciative understanding and mutual good faith. The state must possess a knowledge of the facts, if it is to control properly. Acquiring a knowledge of facts is not a legislative function, it is judicial.

An adequate knowledge of the facts can not be acquired by occasional inquiries by committees of councils or legislatures. That facts may be established, it is necessary that uniform systems of accounting be adopted, that reports be required on fixed dates, covering similar subjects, for the same periods in the same

form. The system must be well devised, continuous, and obligatory as a condition of incorporation.

To guarantee impartiality of administration, the adopted system of accounting and reports should be established as a judicial branch of government, where it will be least influenced by political or commercial considerations. Those intrusted with the executive work of the system of accounting and reports should be selected for their fitness only. They should not be engaged in business, nor own an interest in any reporting corporation. They should be given long terms of service and a salary equal to that of the best paid to state officials. Under such conditions, real ability can be secured for the service of the state, and exceptional fitness can be acquired by experience.

Men are specially educated for service in the army and navy, because experience has taught that special training is necessary for public defense. Is it not strange that people have not learned that intelligent control is necessary to secure the best economic results from all undertakings under the management of municipal, political and industrial corporations? It is no disparagement of municipal councilmen and officials, to say that they do not know and can never know as much about the details of an industry as those who devote their entire time and study to its develop-

ment and management, and whose income and fortune depend upon its success. It is no disparagement of them to say that they do not know and can never know as much about the details of an industry as can those who, by authority of the state, have access to all the books of all municipal, political and industrial corporations in the state, devote their entire time to the study of statistics, observation and methods, and comparison of results, and thereby thoroughly acquaint themselves with the merits of every improvement in machinery and of every discovery of science pertaining to the industry. It is no disparagement of municipal councilmen and officials to say that they are not and can never be as disinterested in ascertaining and reporting facts which must be the basis of intelligent control as men whose lives are dedicated to the service of the public by their profession, as are the lives of army and navy officers, court judges, teachers, and scientific investigators. To say these things is but to recognize the limitations within which every man must act. Control of municipal political and industrial corporations by municipalities is control by the interested and incapable. In no way can disinterested and capable control of such corporations be secured, except through the judicial action of the state.

3. That state control may be impartial and capable,

the officers of the state must acquire complete and accurate knowledge of all details. This requirement renders it necessary that every set of accounts shall be kept by a uniform system, that similar items shall always be entered under specified headings and that uniform reports shall be made covering the operations of the same periods. When provided with such data the state will be able to show the inhabitants of any municipality, or the managers of any industrial corporation, wherein others obtained better results. It is not probable that any corporation will be found deficient in every particular or superior in every respect. It will be found while certain difficulties had been experienced by one management, that some new features had been developed by another management, while still other managements had been giving their best thought an energies to the perfection of other details. An analytic comparison of one with the other will show a diversity of defects and of excellencies. Most defects will be found to consist in being less good than the most excellent, just as ignorance is the absence of intelligence. The ability to show such defects cannot exist without the ability to show how to overcome them. "What man has done, man can do again," is a proverb of human experience. A municipal, political or industrial corporation cannot be shown that in certain details it is not realizing the

best results without being shown where and how better results have been realized. This will be a genuine service of great value to citizens and corporations.

Such an analytic comparison, made year by year, between the municipalities of a state, and published for the information of their inhabitants, will show each municipality what restrictions or exactions must be removed, or what additional facilities must be granted, the better to secure industrial, commercial and social advantages equal to the best enjoyed by any other municipality. If any service rendered to a municipality is found to be not as good, or is more expensive, than a similar service rendered to another municipality, the reason why this is so could be learned from an impartial and competent source of information. Such information is a fundamental requirement for learning how to secure good service at the lowest cost to users. Such information cannot be obtained from the uninformed by the edicts of municipal councils or legislative enactment. One of the greatest disadvantages from which industrial corporations now suffer, in dealing with citizens, municipal or state authorities, is the fact that they cannot secure proper credit for the truthfulness of their statements, because there is no impartial and competent state court, properly commissioned and equipped to investigate and publish regular reports upon the subject.

4. Every wage worker knows that a person who has access to all the accounts of a business, and devotes his entire time to its management, is a more capable manager than one not so situated. Every wage worker knows that he judges of his own condition and progress by making comparisons with others similarly situated, and that such comparisons are absolutely essential for the proper guidance of an undertaking or government. Every wage worker knows that the best guide to proper municipal government will be afforded by uniformity in the accounts of municipal and industrial corporations, kept as required by the state, open to the inspection of the state, reported to the state, and published by the state for the information of all citizens.

Under such a system it will not be enough for the authorities of a municipality to show progress made in any particular by comparison, year by year, with its own record. Progress must be shown in comparison with similar records of all municipalities in the state and country.

It is much for a wage worker if he can prove himself to be the best workman in his establishment, but it will be far better for him if he can prove himself to be the best workman in his municipality or state. It will be well for a manager if he can prove himself to be the best manager his corporation ever had, but it

will be far better for him and his corporation if he can prove himself to be the best manager in his municipality or state. It is well for the managers of municipal, political and industrial corporations, if they can prove their management to be the best in their state, but it will be far better for them and their municipalities if they can prove it to be the best in the country.

If such a system is adopted by each of the several states, the people of any municipality can know the position, on the scale of efficient management, occupied by their city when considered as a whole, or of any detail of its affairs, not only in comparison with the municipalities of their own state, but the whole country. Such knowledge will not only indicate unerringly where improvement should be made, it will show where to learn how to make it. The municipality whose record is best, and the managers of the departments or corporations shown to have obtained the best results, will acquire, by such publication, in addition to the local benefit, the benefit of having the fact become known throughout the civilized world. Those not up to the mark of highest excellence will gain the benefit of being able to show why the best obtained results cannot be realized under the conditions by which they are controlled.

Instead of dividing the energies and resources of a

municipality by competition between corporations and citizens, this system will unite them and use them in a competition between municipalities, states and nations, for excellence in industrial, commercial and social advantages. It will substitute competition between municipalities for competition between citizens. The standard of excellence will be the best services at the lowest cost to users, and the lowest municipal taxation.

5. Government without the guidance of complete and accurate statistics is government by guessing, prejudice and superstition. The science of statistics is to government what the science of navigation is to ocean travel. It must be depended upon to guide progress to the objective point. A correct observation of an untrue compass, or an unintelligent observation of a true compass, must cause an inevitable error in direction. All theories as to a proper course must submit to the arbitration of facts. Measured by ascertained facts all theories stand or fall. Those who honestly advocate and those who honestly oppose a policy should vie with each other in enacting measures designed to secure a perfect record of the operation and results of such policy.

The judgments of truth are rendered only with a knowledge of the facts.

That the statistics of municapal, political and indus-

trial corporations may be properly developed, it is necessary that the state shall establish and maintain, as a part of the judicial branch of its government, a department of municipal administration, properly organized and equipped to cover all features of municipal affairs and the industries that supply the public needs of municipalities and their inhabitants.

The difference betwen the results obtained by municipal corporations, guided by statistics scientifically collected, tabulated and published under conditions designed to secure continuous comparisons, not only with the records of the corporations themselves, but with all other municipal corporations for which similar records are kept, and the results obtained by municipal corporations not so guided, will be as apparent as the difference between the course of an ocean steamer guided by the most accurate knowledge and instruments of navigation and one not so guided.

When the people discard government by guessing, prejudice and superstition, and adopt government by the science of facts, they will reach that point of development where the unintelligent will secure the guidance of the intelligent, and will thereby gain advantages that are beyond the power of their unaided abilities. In no way can the state so effectually fulfill its public trust as by organizing as a branch of its judiciary a department of municipal administra-

tion for the purpose of exercising jurisdiction over the management of the municipal, political and industrial corporations created by it.

APPENDIX NO. 3.

COST OF SERVICE TO USERS AND TAXPAYERS. (1897.)[1]

Price is Cost to Users and Taxpayers when Services are Rendered by Private Corporations.

When an industry is owned and operated by a private corporation the cost of the service to users and taxpayers is limited and fully included in the price paid for it. Users and taxpayers, as such, are not interested in the details of cost of construction, general expenses, fixed charges, operating expenses and maintenance. Their interest begins and ends in all considerations which explain the price they pay for the service and furnish a basis for establishing the reasonableness of that price. The people are right in demanding that services shall be rendered in the best manner known that has been made commercially practicable, and at the lowest fairly profitable price. In determining these points the representatives of

[1] Extracts from a paper read before the "National Conference of Mayors and Councilmen," Columbus, Ohio, September 28-30—October 1, 1897.

the people, whether mayors or municipalities, or members of city councils, governors of states, or members of legislatures, can have no better guide than the facts of experience. That experience may be available and authoritative, the facts developed under it must be collected, tabulated and reported by an expert, impartial and comprehensive authority that can reach every corporation and every municipality in the whole country through its duly commissioned agents. It must make a personal investigation of all facts relating to prices charged, and of all conditions necessary to explain such prices. The results of such an investigation will guide judgment to a correct conclusion.

COST IS PRICE TO USERS AND TAXPAYERS WHEN SERVICES ARE RENDERED BY MUNICIPALITIES.

In every case, whether a service is rendered by a private corporation or by a municipality, the private user is interested directly only in the price charged for it. In the case of municipal ownership and operation, however, he is also interested in the cost of production, as this will affect his taxes. The consideration offered for his vote in favor of municipal ownership is that the cost of the service will thereby be reduced, and that this reduction will become effectual in the price he is required to pay for what he gets. The struggle for municipal ownership and operation

is a struggle to depress the cost of rendering services, not to raise prices for services rendered.

This is the meaning of the agitation for the municipal ownership and operation of public service industries that has taken place in almost every city and town in the United States within the last ten years, and is now rapidly reaching an acute stage of development through being made a political issue. Professor James says: "To continue the farce of allowing competition to regulate prices simply means that good and cheap gas is forever impossible."

Professor Bemis says: "The financial benefits to the community are in the shape of cheaper gas, or more revenue to the municipality. It is to be hoped that cities may be enabled to dispense with the present necessity, for revenue purposes, of charging more than cost for gas." The "Association for the Public Control of Franchises" of the city of New York says: "What is even more important to the mass of citizens, public control of the means of transportation and illumination, will lead to a similar reduction (one-half) in car fares and gas bills." Edward M. Grout says: "The question * * * touches the pocket of every gas user to the extent of from twenty to forty per cent. of his gas bills."

When a service is rendered by a corporation for the public purposes of a municipality, the price paid by

the municipality limits its cost to taxpayers. When the same service is rendered by the municipality for its own account, through the ownership and operation of the industry, the price to taxpayers is the entire net cost of the service.

The "Association for the Public Control of Franchises" of the city of New York says: "According to the most conservative authorities, half the city's revenues would be derived from its street car, gas and other franchises. In this event, taxes upon private end personal property would be cut in two." Statements similar to this cover the consideration invariably relied upon to secure votes for the approval of proposal authorizing the construction and operation of municipal works for rendering industrial public services. Every mayor and every member of a city council, every governor and every member of a state legislature, where such a measure has been discussed, is familiar with the representations made to show the economic advantages expected to result, for the benefit of private users and taxpayers, from the adoption of the policy of municipal ownership and operation.

A TRUE BASIS FOR COMPARISONS.

In the cases of services rendered by private corporations, price is cost to users and taxpayers. In the case of services rendered by municipalities, cost is

price to taxpayers, and the price charged is cost to private users as such. These facts are established by the conditions of the undertakings, beyond the power of intelligent controversy, or change by legislative enactment. To determine the relative economic advantages derived from private or municipal ownership and operation of public service industries, the price charged by private corporations and the cost of service rendered by municipal works, are, it must be seen, the only correct basis for comparisons. Price charged by private corporations can be ascertained. To ascertain the cost under municipal ownership and operation this investigation must include every item of cost involved in the rendering of the service. The facts needed should all be matters of public record. Assurance is given that they can be obtained. This will give opportunity to the municipal representatives of the people, wherever municipal works are owned and operated, to demonstrate the efficiency of their administration of the people's business. It will afford an opportunity to prove the affirmation of Professor James when he says: "The common argument against the public management that it is necessarily more expensive than private management, is not well grounded, either in reason or fact." It is an opportunity to add the authority of experience to the inference made by Professor Bemis when he says: "The

argument that cities can manage gas works successfully because they have succeeded with water works, has been frequently made, and has force."

This investigation, by the Department of Labor, is entered upon with a full knowledge of its vital importance to all urban citizens, to all municipalities, and to all of the vast investments held in public service corporations. If it shall show that price to users and taxpayers charged by private corporations is unreasonably higher than cost under municipal ownership and operation—and what advocate of municipal ownership believes it is not?—private corporations will have no choice but to reduce their prices or to sell out to the municipalities in which they are located. To this final, crucial test private corporations must submit. This test will bring the struggle to depress cost of rendering municipal industrial services to an acute stage of development. It substitutes actual competition between private corporations and municipalities for theoretical competition between corporations within municipalities. The only difficulty in the way of making this test accurate is the want of uniformity in methods of municipal book-keeping. In measuring the prices charged by private corporations against cost of production by municipally owned and operated works, justice and the interests of the people demand that all factors of cost shall be correctly and

fully included in the accounts. An understatement of costs will be unjust to vast invested interests, and will lead the people into drawing erroneous and harmful conclusions.

When a person buys an article, quality, quantity and price are all his interests require him to consider, but when he contemplates undertaking the manufacture of an article, every item of cost as well as selling price becomes of vital importance to him. In comparing price with cost, this investigation will decide for the people of many municipalities a grave question of public policy; whether they will continue to buy the services they need from private corporations or undertake to manufacture for themselves. In this aspect of the question the accounts of every municipally owned and operated works for the supply of industrial public services becomes of national importance and should be exhibited with absolute correctness.

* * * * * * * * *

There is not a mayor nor a city council in the United States that has not time and again felt the urgent need of such statistics as this investigation is designed to gather and publish for the information of all the people. There have been many cases where committees of city councils have spent much time and money to secure data such as this, and have not been able

to reach satisfactory results. Private corporations have been compelled to suffer heavily in some instances, and generally to experience much disquietude on account of erroneous opinions based on statements unsupported by facts, which could not be successfully controverted because of the impossibility of obtaining the facts from an impartial source which would be accepted by all parties as authoritative. In the broadest and best sense it is to the interest of the people, of municipal governments and of public service corporations to welcome this investigation and assist its successful prosecution in every way that comes within their respective spheres of action. This is especially true because it will cause existing municipal works to perform a new function of national importance. Municipal cost will become a regulator of price.

The cost of services under municipal ownership and management, ascertained and published as described, will become a regulating force in determining the price for services that will be agreed upon as reasonable to be charged by private corporations everywhere throughout the country. If this were the only purpose of the investigation, no interest touched by it could afford to permit it to fail or even be hindered.

(Extracts from Proceedings, October 1, 1897.)

LEAGUE OF AMERICAN MUNICIPALITIES.

(Copyright.)

(By Permission from "Progressive Age," New York, November 15, 1897.)

Mr. A. H. Boardman of Tampa, Fla.: "I would like to submit to the secretary a resolution which does not need any special commendation from me. I think the resolution expresses the idea fully as well as I can."

The resolution was read, as follows:

DEPARTMENT OF LABOR.

Whereas, This National Conference of Mayors and Members of City Councils has been informed that the United States Department of Labor has undertaken an investigation of water, gas and electric lighting works, and a clear outline of the methods, form and purposes of this investigation has been given by Mr. Allen Ripley Foote, in a paper read before this conference under the title of: "Cost of Service to Users and Taxpayers, a Proper Basis for Comparison Between Private and Municipal Ownership of Water, Gas and Electric Lighting Works;" and

Whereas, The Hon. Carroll D. Wright, United States Commissioner of Labor, has announced that the object of this investigation is to enable municipalities and the citizens thereof to determine whether

there is any economic advantage to consumers in the municipal ownership and operation of water, gas and electric lighting works; and

Whereas, Such an investigation by the expert and impartial authority of the United States Department of Labor, which can reach every municipality in the United States, is sorely needed, and will have a vital and far-reaching influence in correctly guiding public policy on this question of paramount importance to all municipalities; be it

Resolved, That this conference cordially approves of the investigation as set forth in Mr. Foote's paper, to be made for the purpose stated by the Hon. Carroll D. Wright, United States Commissioner of Labor.

Second, That the delegates to this conference tender to the United States Department of Labor, and to its duly accredited agents, their co-operation in every practical way to facilitate this investigation in their respective municipalities, and to make the information collected complete and accurate.

Third, That it is the sense of this conference that the executive and legislative officers of all municipalities, and the managers of all public service corporations, should promptly and correctly do whatever may become necessary on their part to expedite the work of this investigation to the end that through it sta-

tistics may be secured that will be accepted by all persons as reliable basis for comparison.

* * * * * * * * *

The chair requested a rising vote, on which the resolutions were adopted, and the chair so announced.

APPENDIX NO. 4.

UNIFORMITY IN MUNICIPAL FINANCE.

The Advantages of Administrative Control.[1]

Indeed, if home rule for American cities is ever to become more than a catch word, and if a sphere of local independence is to be recognized, the reform must lie in the substitution of an administrative control in place of legislative interference. The interest of the state at large in good municipal government is so vital, and the history of the past is so burdened with the details of the abuse of extensive powers, even when under legislative checks, that absolute home rule is neither obtainable nor desirable. To be sure, constitutional restrictions upon local taxation and indebtedness, and upon special legislation, have in part avoided the dangers previously exist-

[1] Extracts from a paper by Prof. C. W. Tooke, "Municipal Affairs," New York, June, 1898.

ing, but the problem is yet far from a successful solution.

IS IT DESIRED?

As inquiry into the opinions of the mayors and controllers of our leading cities shows that in some quarters advanced ground upon this question is already taken by these officials, as would naturally be expected.

Mayor Quincy, of Boston, favors such a movement. He writes: "I have for some time believed in the desirability of establishing state boards of commissioners for cities to perform somewhat the same functions as the English local government board. I believe that the work of co-ordinating and properly supervising the work of a city, particularly upon its financial side, calls much more strongly for the creation of a state commission than many lines of work for which state commissions have already been appointed."

Mayor Black, of Columbus, says that he is heartily in favor of any legislation looking to the prevention of special legislation for municipalities and to the uniformity of all municipal laws in each state.

Mayor Maybury and Comptroller Blades, of Detroit, both recognize the desirability of uniformity in bookkeeping, but doubt the feasibility of the attempt to attain it.

Mayor Rauschenberger, of Milwaukee, says that, in his opinion, the question of exercising control over the indebtedness of cities should be entirely regulated by state laws.

The mayors of Pittsburg, New Orleans, Savannah and Denver oppose state control in any form, upon the ground of intrenchment upon local rights of home rule, but do not seem to be averse to the creation of a board with advisory powers.

Mayor Baker, of Providence, does not favor the creation of a state board for the reason that his state is small, the number of cities very limited (only five), and their needs and interests greatly diversified.

Of the mayors of some ten other leading cities, whose replies were non-committal, the majority refused to express any opinion because they had given little or no thought to the consideration of the question.

No attempt has been made in this article to give an exhaustive list of all the reforms in state and local administration that might have a bearing upon the problem under discussion. A fixed responsibility, a good civil service, an active public interest—all these elements will go a long way towards securing an honest, accurate and scientific administration of finance in any municipality. Indeed, it must be recognized that in the great majority of our cities efficient service

is already secured in this department, and that in some few cities the financial administration leaves nothing to be desired. But there does exist a need of the means of comparison of the results attained in our larger cities and of uniformity and efficiency in the conduct of finance in the lesser municipalities of the several states. The writer believes that the few plans offered are not only of immediate desirability in most of our states, but that the measures advocated are at once conservative, practical and possible of attainment.

APPENDIX No. 5.

RESOLUTION OF THE LEAGUE OF AMERICAN MUNICIPALITIES.[1]

League of Municipalities.

The Journal in an editorial on Monday, August 1, under the heading: "The League's Opportunity," said:

"If the municipalities represented in the league at this convention will set before themselves the task of securing a uniform system of accounting through the requirements of state legislation, a sound foundation will be laid upon which all reforms can be based, and

[1] Extracts from an editorial: *Detroit Journal*, August 8, 1898.

the securing of uniformity in accounts will in itself be a reform of such magnitude that it will amply justify the organization and work of the league. Correct and uniform accounting is as essential to good municipal government as a correct compass and charts are to navigation. No person who desires the public welfare to be well served can find a reason for opposing a proposal of this character."

RESOLUTIONS ADOPTED.

The convention acted upon this suggestion, and adopted the following resolutions:

Whereas, Municipal officers are entitled to the full credit due to the honest and capable administration of municipal affairs, and,

Whereas, Money collected by taxation and devoted to public use should be accounted for with all the care and regard for taxpayers' interests as are deposits in savings banks, and,

Whereas, A uniform system of accounting applicable to every municipality in a state, formulated and audited by the state, designed to show the entire and true costs of all public utilities owned and operated by municipalities, is the most effective check on unwise expenditures, and the most reliable guide to a correct municipal policy that can be devised; be it

Resolved, That the League of American Municipalities earnestly approves the enactment of state laws providing for a uniform system of accounting that will group all similar items under the same general headings and designed to show the entire and true costs of all public utilities operated by each municipality; and, be it

Resolved, That the law should provide for a state audit of all municipal accounts and the annual publication of a comparative statement showing the results of municipal administration by each municipality; and, be it

Resolved, That this league recommend all municipal governments in each state to co-operate for the purpose of securing, at the earliest practicable date, the enactment of a law providing for a uniform system of municipal accounting, to be formulated, audited and the results published annually by state authority.

An amendment to these resolutions was offered by Mayor Black, of Columbus, which was seconded by a score of delegates and accepted by the mover of the resolutions, ex-Mayor Green, of Binghamton, N. Y. The amendment is to the effect that the system of uniform accounting called for by the resolutions shall be extended to include public service corporations. The resolutions as amended by Mayor Black were then adopted without dissent.

APPENDIX No. 6.

A STATE MUNICIPAL BOARD.[1]

Administrative Supervision An Aid to Local Home Rule.

An additional advantage might also be expected in the way of stimulus to local pride and independence and efficiency in matters purely local, thus really adding to the present scope of city home rule. The experience of England on the development of her municipal governments under the supervision of the administrative local government board argues strongly in this direction. This aid to local autonomy would be given in two ways: First, as we have seen, a chief abuse under our present system is the continual interference of the state legislature in matters purely local. If a supervisory board were established to which all new legislation proposed for cities could be referred for report before action upon it, a large part of this special legislation would be avoided. The legislation now passed that is injurious is usually put through, with little examination, on the recommendation of the member from the district concerned and with his assurance that it is desired. A board of specialists, con-

[1] Extracts from a paper by Prof. J. W. Jenks, "Municipal Affairs," New York, September, 1898.

versant with the affairs of all the cities in the state, as the municipal government board soon will be, could not afford to recommend any bill without seeing its purport clearly; and in its own interest it would be compelled to expose any mere political job. Its formal reports on such matters would carry far more weight than do the words of protesting delegations in the committee rooms, and would prevent any "rushing through" of bills without a fair hearing.

In addition to thus checking state action on purely local matters, the board would stimulate local independence and interest by giving to each city full information regarding the experience of others, thus encouraging a spirit of rivalry among the cities besides putting into the hands of any citizen material for criticising his local rulers if the work done in his city compared unfavorably in cost or excellence or method of performance with work of the same kind in another. Under our present system, when a small city wishes to start a new improvement, or to try some new plan of management, it is not uncommon for a committee to go on a "junketing tour" to visit one or two other cities in order to get the benefit of their experience. The reports of a municipal government board would give much information of the kind always sought, would give it completely and accurately and impartially, and would give it for all

the cities concerned in the state. They might in part obviate the necessity of some of the visits of inspection; but they would certainly be of use in determining the places to visit, the questions to ask, the special things to see. It might well be expected that one of the chief benefits of such a board would be the advancement of the principle of local home rule. To enable the state, therefore, to care for its own interest in the different cities, as well as to further the development of the principle of local autonomy, besides our present legislative and judicial control, it is seen that we need an administrative supervision.

* * * * * * * * *

SUMMARY AND CONCLUSION.

A municipal government board then would tend: (1) to make clear the true relations between the functions of state and local governments; (2) to secure the efficient performance of state functions by local officials; (3) to furnish to the public information regarding the performance of local functions in such comparative form that it would be of great service to local officials; (4) to do supervising work of such a nature that it would check continual interference in local affairs by the legislature without checking the legislature in the making of needed general laws; (5) to stimulate by publicity and encouragement local

pride and activity in affairs purely local and to develop the spirit of local home rule; (6) to guide, by accurate and full information, public opinion on the various questions arising in connection with city government.

It is hardly too much to say that every authority on municipal government in this country and Europe favors a central administrative supervision of local governments along the lines here laid down. The demand for the reform of the evils of our city governments and for the lessening of legislative interference with them is strong; the best remedy seems to be the one suggested.

There is every reason to believe that from the money saved to the state and municipalities by the supervision of the board the expense of its administration would be paid many times over, while the general excellence and efficiency of the government would be greatly increased. It is not to be expected that any new board would work a revolution in our municipal politics and give us an ideal system; but it does seem probable that no other improvement, ordinarily suggested in our methods of city government, would be likely to yield so large, favorable, immediate results as would the establishment of a municipal government board.

APPENDIX No. 7.

INTRODUCTION TO OFFICIAL MESSAGES TO BOARD OF COOK COUNTY (ILLINOIS) COMMISSIONERS.[1]

The state legislature should also provide for a department of audits, and it would be an advantage in governmental science if the system was made uniform and applicable to all municipalities alike. At any rate the new common council should provide for an auditing department, to which all heads of departments should furnish a daily accounting, and in which a complete system of checking accounts and keeping books would be established. If the state should adopt a system like that of the national banks, so that at regular intervals the books of each municipality could be examined, the improvement would be vast. More money is lost under the present methods of book-keeping than from any other source. In fact there are no books kept other than cash books, and about the only records outside of currency records are those to be found in the printed board of council proceedings. Such a thing as obtaining any record of the vast amount of work done as of any individual case in point is an arduous task at present. Such a

[1] By D. D Healy, President of Cook County Commissioners, Chicago, September 15, 1898.

thing as turning at once to the proper records and producing information on the spot on any given subject is not to be thought of in public departments. Of course there are exceptions, but any one who has ever had occasion to investigate will bear out the assertion that the exception proves the rule. This is partly so because certain expert clerks employed in various departments owe their positions to the grasp of public business experience has taught them, and also because they carry in their heads all matters of routine. Upon every change of administration these men are necessary, while if proper records were kept, and a uniform system was in running order, any man of ordinary diligence and intelligence could perform whatever duty he might be assigned.

All great corporations and business establishments keep track of every item, and keep track of it in books. It is the fact that any moment a business man can strike a balance on his affairs, that he is able to progress with that power which comes of knowledge. It is because everything is accounted for that he can practice economy and make his career a success. The taxpayers of Chicago demand business methods in their public affairs, and when the new system is devolved care should be provided to furnish this prime essential.

The next county board will be called upon, beyond

a shadow of a doubt, to grapple with these grave questions, and upon the wisdom, prudence and forethought of its members will depend the government of the next generation. Every encouragement should be given by the board to an intelligent exchange of opinions and ideas on the subject of a new government for "Greater Chicago," and the proposition should be agitated until the taxpayer at last is relieved of the position he now occupies as a victim of an obsolete system.

It is with feeling that a good account has been rendered of its stewardship that the present board will end its tasks. Under it legislative reforms of the greatest consequence have been enacted, the most rigid economy has been practiced in every department, the finances of the county are in perfect shape, the poor have been fed and clothed and cared for according to the highest instincts of humanity; it has built and beautified the institutions under its care, the fee offices have been perfectly conducted without scandal, loss or deficit; the employees have been brought to a high state of efficiency, and every public duty has been conscientiously performed.

Chicago, Sept. 15, 1898.

APPENDIX NO. 8.

CONSTITUTIONAL AMENDMENT.

(Proposed by Committee.)

ARTICLE FIRST.

Section 1. The right to vote and registration.

Sec. 2. Secrecy in voting.

Sec. 3. Separation of city elections from state and national elections. Nominations to city office.

ARTICLE SECOND.

No private or local bill granting exclusive privileges, immunities, or franchises.

ARTICLE THIRD.

Section 1. A city's public places inalienable. Franchises for their use only for limited term. Stated financial reports of the grantee and right of city to inspect grantee's books a condition of their grant.

Sec. 2. Limitation of city's power to incur debt and of its tax rate.

Sec. 3. City's power to establish minority or proportional or other form of representation as to elections to elective municipal offices.

Sec. 4. Uniform methods of city accounting.

Sec. 5. City may establish minor courts.

Sec. 6. Organization of cities hereafter created must

provide for mayor vested with executive power of city and appointing heads of all city departments except finance department; a council; appointments and promotions in administrative service on the merit principle; mayor and members of council only city officers elected by popular vote.

Sec. 7. General powers of cities.

Sec. 8. Legislature shall pass a general municipal corporations act.

Article Fourth.

A city having a population of twenty-five thousand or more may adopt its own charter and frame of government.

Article Fifth.

PETITIONS.

CONSTITUTIONAL AMENDMENT.

Article First.

Section 1. Laws shall be made for ascertaining by proper proofs the citizens who shall be entitled to vote at popular elections and for the personal registration of voters, which registration shall be completed at least ten days before each election.

Sec. 2. All elections by the citizens shall be by a secret ballot or by such other method as may be prescribed by law, provided that absolute secrecy in vot-

ing be preserved. No voter shall disclose the contents of his ballot at any polling place or within —— feet thereof.

Sec. 3. Elections of city officers elected by popular vote shall occur at a different date from that of any election by popular vote of officers of the state or national government. Nominations of such officers shall be by petition signed by legally qualified voters of the city concerned. The number of the signatures to such petition shall be determined by the legislative authority of the city concerned, but in the absence of such determination fifty signatures shall be sufficient. Such petition shall be filed in the office of the mayor at least thirty days before the date of the election; provided, however, that in the case of the death or withdrawal of any candidate so nominated such petition may be so filed within a less period than thirty days. The legislative authority of the city shall determine the form of the ballot to be used in the election of city officers; provided, however, that the names of all candidates for the same office must be printed upon the ballot in alphabetical order under the title of the office.

Article Second.

The legislature shall not pass a private or local bill granting to any private corporation, association, or

individual any exclusive privilege, immunity or franchise whatever.

ARTICLE THIRD.

Section 1. The rights of every city now existing or hereafter created within the state, in and to its water front, ferries, wharf property, land under water, public landings, wharves, docks, streets, avenues, parks, bridges and all other public places, are hereby declared to be inalienable, except by a four-fifths vote of all the members elected to the council approved by the mayor; and no franchise or right to use the same, either on, through, across, under, or over, and no other franchise granted by a city shall be for a longer period than twenty-one years to any private corporation, association, or individual. Such grant or any contract in pursuance thereof may provide that, upon the termination of the grant, the plant, as well as the property, if any, of the grantee in the streets, avenues and other public places shall thereupon, without further or other compensation to the grantee, or upon the payment of a fair valuation thereof, be and become the property of the city; but the grantee shall be entitled to no payment because of any valuation derived from the franchise. Every grant shall specify the mode of determining any valuation therein provided for, and shall make adequate provision by way of forfeiture of the grant, or other-

wise, to secure efficiency of public service at reasonable rates, and the maintenance of the property in good order throughout the term of the grant. Every grantee of such franchises or rights to use shall keep books of accounts and make stated quarterly reports to the financial department of the city, which shall contain an accurate statement in summarized form and also in detail of all its financial receipts from all sources and all expenditures for all purposes, together with a full statement of its assets and debts, as well as such other information as to the financial condition of such grantee as said department may require, and said department may inspect and examine, or cause to be inspected and examined, at all reasonable hours, any books of account of such grantee.

Sec. 2. No city shall hereafter give any money or property, or loan its money or credit to or in aid of any private individual, association, or corporation; but it may make such provision for the aid and support of its poor as may be authorized by law.

No city shall become indebted for any purpose or in any manner to an amount which, including existing indebtedness, shall exceed —— per centum of the assessed valuation of the real estate within such city subject to taxation as shown by the last preceding assessment for state or city taxes; provided, however, that in determining the limitation of the city's power

to incur indebtedness there shall not be included the following classes of indebtedness:

(1) Certificates of indebtedness or revenue bonds issued in anticipation of the collection of taxes, unless the same be not paid within two years of the date of issue;

(2) Or bonds authorized by the affirmative vote of two-thirds of the members of council, approved by the mayor and approved by the affirmative vote of the majority of the voters of the city voting upon the question of their issuance at the next ensuing election of city officers for the supply of water or for other specific undertaking from which the city will derive a revenue.

All certificates of indebtedness and revenue bonds shall be provided for and payable from the taxes levied for the year in which they are issued, and shall never exceed the amount of such taxes.

Provision shall be made at the time of their issue for raising a sum of money by taxation or otherwise sufficient to pay the interest upon all city bonds as it falls due, and to pay and discharge the principal thereof within twenty years from the date of their issue.

The amount to be raised by tax for city purposes upon real and personal property, or either of them, in addition to providing for the principal and interest

of existing debt, shall not in the aggregate exceed in any one year —— per centum of the assessed valuation of the real and personal estate subject to taxation by such city, to be ascertained as hereinbefore prescribed in respect to the city debt.

Sec. 3. The legislative authority of any city now existing or hereafter created within the state may, as to elections to elective municipal offices, establish minority or proportional or other system of representation; but before such exercise of authority takes effect it must be approved by a majority of the then legally qualified voters of the city voting thereon at the then next ensuing general or municipal election, occurring at least —— days thereafter.

On a petition therefor, signed by at least —— per cent. of the legally qualified voters of the city and filed in the office of the mayor, a proposition as to elections to elective municipal office to establish minority or proportional or other system of representation must be submitted to the legally qualified voters of the city at the next ensuing general or municipal election occurring at least —— days thereafter; if a majority of such voters voting upon such proposition are in favor thereof, such proposition shall go at once into effect.

Sec. 4. Every city shall keep books of account and make stated financial reports at least as often as once

a year to the* in accordance with forms and methods prescribed by him, which shall be applicable to all cities within the state. Such reports shall be printed as a part of the public documents of the state, and submitted by the * to the legislature at its regular session next succeeding the making of such report. Such reports shall contain an accurate statement in summarized form and also in detail of the financial receipts of the city from all sources, and of the expenditures of the city for all purposes, together with a statement in detail of the debt of said city at the date of said report, and of the purposes for which such debt has been incurred, as well as such other information as may be required by the *. Said * shall have the power by himself, or by some competent person or persons appointed by him, to examine into the affairs of the financial department of any city within this state. On every such examination inquiry shall be made as to the financial condition and resources of the city, and whether the requirements of the constitution and laws have been complied with, and into the methods and accuracy of the city's accounts, and as to such other matters as the said * may prescribe. The * and every such examiner appointed by him shall have power to administer an oath to any person whose testimony may

* State Comptroller or other fiscal officer.

be required on any such examinations, and to compel the appearance and attendance of any such person for the purpose of any such examination, and the production of books and papers. A report of each such examination shall be made, and shall be a matter of public record in the office of said.[1]

Sec. 5. Cities may establish minor courts which shall have exclusive civil and criminal jurisdiction in the first instance for the enforcement of ordinances of the corporation and of punishments and penalties for violations thereof. Such courts shall have such further or other jurisdiction as may be conferred by the legislature, subject to the other provisions of this constitution, but they shall not have any equity jurisdiction nor any greater jurisdiction in other respects than is conferred upon.[2] The justices of such courts shall be appointed and may be removed by the mayor. No one shall be eligible to appointment as such justice unless he has been[2] for at least five years. Such justices shall be subject to the same liabilities, and their judgments and proceedings may be reviewed in the same manner and to the same extent as is now or may be provided by law in the case of.[3] Except

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[1] State Comptroller or other fiscal officer.

[2] An attorney and counselor-at-law of the state, or some equivalent expression appropriate to the particular state.

[3] Some lower court recognized as a regularly constituted part of the state's judiciary system.

as otherwise in this constitution provided, all city judicial officers shall be appointed and may be removed by the mayor thereof.

Sec. 6. In the organization of every city hereafter created provision shall made:

For a council, the members of which shall be elected by the people.

For a mayor elected by the people; the chief executive officer of the city shall be the mayor, who shall appoint and remove all heads of departments in the administrative service of the city, except the head of the Finance Department; and who shall appoint and remove all other officers, agents, and employees in the administrative service of the city and fill all vacancies therein, provided, however, that appointments and promotions in the administrative service of the city shall be made solely according to fitness, which shall be ascertained, so far as practicable, by examinations, that, so far as practicable, shall be open competitive examinations.

All persons in the administrative service of the city, except the mayor, shall hold their offices without fixed terms.

The mayor and members of the council shall be the only city officers elected by popular vote.

Sec. 7. Within its corporate limits, every city within the state shall have the same powers of taxation as

are possessed by the state. It may license, tax, and regulate all trades, occupations, and businesses, and shall be vested with power to acquire, hold, manage, and control property, perform and render all public services, and with all powers of government, subject to such limitations as may be contained in the constitution and laws of the state, applicable either to all the inhabitants of the state or to all the cities of the state, or in such special laws applicable to less than all the cities of the state, as may be enacted in the manner hereinafter provided.

Such special laws shall require the affirmative vote of two-thirds of all the members of the legislature, and shall not be valid in any city unless they receive the formal approval of its legislative authority within sixty days after the passage thereof by the legislature, or, within thirty days after disapproval by the legislative authority of the city, shall again be passed by the legislature by the affirmative vote of two-thirds of all the members of the legislature, which two-thirds shall include three-fourths of the members of the legisture from districts outside of the city or cities to be affected. The failure of the legislative authority of the city to take formal action approving or disapproving a special law shall be deemed a disapproval thereof. The laws repealing such special laws may be passed in the manner provided for the passage of general laws.

Sec. 8. The legislature shall pass a general municipal corporations act applicable to all the cities in the state which shall, by popular vote, determine to adopt it.

Article Fourth.

Subject to the constitution and the laws of the state, applicable to all of the inhabitants or all the cities thereof, and to such special laws as may be passed in the manner hereinbefore provided, any city having a population of twenty-five thousand or more may adopt its own charter and frame of government in the following manner:

The legislative authority of said city may, and when requested by a petition filed in the office of the mayor signed by —— per cent. of the legally qualified voters thereof must, provide by ordinance for an election not less than —— nor more than —— days after the passage of such ordinance, at which the legally qualified voters of said city shall elect a board of not less than fifteen and not more than —— members, who for at least five years preceding said election shall have been legally qualified voters therein. Each member of said board shall be a householder within said city. It shall be the duty of said board to convene upon the ———————— after said election, and thereafter and within —— days to prepare and propose a charter and frame of government for

such city, which shall be signed in duplicate by the members thereof or a majority of them, and returned, one copy thereof to the mayor and the other to the secretary of state. Such proposed charter and frame of government shall then be published daily in two papers of general circulation in such city for at least twenty days, and within not less than thirty days and not more than sixty days after such publication, shall be submitted to the qualified voters of such city at a special or general municipal election, and the legislative authority of said city shall provide by ordinance for the holding of such special election, unless a general municipal election shall be held within the time hereinbefore prescribed.

If a majority of the legally qualified voters of the city voting thereon shall ratify the same, it shall become the charter and frame of government of such city and the organic law thereof, and supersede and repeal all laws inconsistent therewith and any existing charter and all amendments thereof. A copy of such charter and frame of government, duly certified by the proper authorities of such city, setting forth its submission to the legally qualified voters of the city and its ratification by them, shall be made in duplicate, and deposited, one in the office of the secretary of state, and the other among the archives of the city. All courts shall take judicial notice thereof. The charter and

frame of government so adopted may be amended at intervals of not less than two years by proposals therefor which the legislative authority of the city may, and, when requested by a petition signed by —— per cent. of the qualified voters of said city, must, submit at the next municipal election held at least sixty days after the adoption of the ordinance or filing in the office of the mayor of the petition making such proposals, ratified by a majority of the qualified voters voting thereon, as herein provided for the adoption of the charter and frame of government. In submitting any such proposal any alternative article or proposition may be presented for the choice of the voters and may be voted on separately without prejudice to others.

After the filing of a petition in accordance with the provisions of this article, if the legislative authority of the city neglects or fails to provide by ordinance for an election as hereinbefore directed, then it shall be the duty of the mayor to order such election, and his order for such purpose, duly signed by him and filed in the archives of the city, shall have the same force and effect as an ordinance for the same purpose.

Article Fifth.

The petitions mentioned in the foregoing articles need not be one paper, and may be printed or written, but the signatures thereto must be the autograph sig-

natures of the persons whose names purport to be signed. To each signature the house address of the signer must be added, and the signature must be made and acknowledged or proved before an officer authorized by law to take acknowledgment and proof of deeds. The certificate of such officer under his official seal that a signature was so made and acknowledged or proved shall be sufficient proof of the genuineness of the signature for the purposes of these articles.

The signing of another's name to a petition and a certificate falsely stating either that a signature was made in the presence of the officer or acknowledged or proved before him, shall be punishable as a felony.

PART III.

COST OF SERVICE

...TO...

USERS AND TAXPAYERS

A PAPER SUBMITTED TO THE
NATIONAL CONFERENCE OF MAYORS AND COUNCILMEN,
AT COLUMBUS, OHIO,
September 28, 29, 30, and October 1, 1897.

PART III.

Cost of Service to Users and Taxpayers.

INTRODUCTION.

The cost of service to users and taxpayers is the only proper basis for comparisons to show the relative economic advantages derived from private and municipal ownership and operation of water, gas and electric lighting works.

In 1888 it was reported that there were in the United States 544 municipal water works, 5 municipal gas works, no municipal electric lighting works, and no municipal street railways.[1] It is estimated, that in 1897, there are in the United States 1,900 municipal water works, 25 municipal gas works, 400 municipal electric lighting works, and no municipal street railways.

No question pertaining to municipal policy, or to the efficiency of municipal government, has caused so much discussion, or is of greater economic impor-

[1] See appendix, page 261.

tance for the welfare of every municipality, and of all the people, than the question of the ownership and proper regulation of municipal public service industries.[1] While ownership and operation may be intrusted to private corporations, regulation must always be a governmental function.

Those who study questions of public policy, solely for the purpose of discovering ethical and economic principles, which, if correctly understood and applied, will most surely result in practical benefits for all the people, recognize the question of properly controlling, without unnecessarily checking the growth of corporate power, as the most difficult and the most important problem now demanding a wise solution.[2] They see many dangers for public and private welfare when purely economic questions are made political issues without the guidance of facts.[3] There have been ten years of discussion, investigations and studies without number, by teachers of political economy, committees of economic associations and municipal reform associations for the purpose of fitting theory to practice; and by committees of municipal councils for the practical purpose of determining a just price to be paid for water, gas or electric lighting service; or to determine whether it would be wise for the municipality

[1] See appendix, pages 251, 276, 319.
[2] See appendix, pages 251, 256, 281.
[3] See appendix, pages 264, 270, 322.

to assume the ownership and operation of the industry for its own account. The vital question, "How can the power of concentrated organizations be utilized to its fullest expression, without risk of suffering from its real or imaginary tyranny," is still unsolved. In attempting to solve this question it must be clearly seen that the interest of one consumer, whether an individual or a municipality, is identical with the interest of all the people, and that the distrust with which monopolies are universally regarded, is developed by the fact that the people have been taught to rely upon the regulative force of free competition, to guarantee that services will be rendered at the lowest possible cost.[1] These natural monopolies are industrial organizations, superior to the regulating influence of competition. Society will not render humanity its best services until it discovers some principle for the guidance of legislation in controlling these industries from which all elements of competition are eliminated.[2]

AN APPEAL TO STATISTICS.

It is in the mind of every man that something is wrong somewhere, but just what is wrong, or where it is wrong, or why, he does not appear to know. In the absence of facts any charge is safe. The greed of corporations, exacting burdensome tribute to pay

[1] See appendix, pages 38, 42.
[2] See appendix, pages 38, 39, 42, 45, 83.

dividends on watered stock, or interest on bonds covering twice over the necessary cost of construction and equipment, excites the imagination of some; while others center their attention on "boodlers" in city councils and State legislatures, who are always out for bribes whenever any legislation is required for public service monopolies. To restore the people to a normal condition of mind, in which they will guide their action by a knowledge of the facts—not by fear, prejudice or superstition—appeal is made to statistics by all parties to the controversy as a means of correcting abuses by and of corporations, industrial and political.[1]

The statistics needed have never been gathered.[2] Those who have undertaken to collect them have been discouraged by the work and expense involved, and the practical difficulties met with in attempting to get facts sufficiently comprehensive and reliable for safe generalization.[3] Careful investigators,[4] whose only care is for the truth, know what a faint light the statistics they have been able to gather throw upon the question of the comparative efficiency of public and private owenrship and operation of public service industries. Less accurate, less cautious persons have,

[1] See appendix, pages 267, 268, 275, 306, 316.
[2] See appendix, pages 260, 265, 296.
[3] See appendix, pages 264, 277, 296.
[4] See appendix, pages 258, 264, 265.

however, taken partial data, collected almost at random, and without opportunity or ability to verify their correctness, and deluded the people to their injury with incorrect theories, based on incomplete statements. To base a general report for the United States upon the study of a score of cities is absurd.[1]

Professor Bemis declared in 1892:[2] "Never before has the desire for accurate facts and principles in regard to city ownership of gas works in this country been as great as now." In 1896 he declared:[3] "Surely the only alternative to public ownership is the fullest publicity as a basis for wise public regulation," and that no "private investigation (of which he has made many) can take the place of a public one." He says in "The New Time" for August, 1897: "In our social problems what the country needs is accurate information and a thoroughly comprehensive grasp of the situation."

Few, if any, subjects of equal importance seem to be so lacking in reliable and detailed data.[4] Still, the most competent observers declare that if it can be shown that municipal industrial services can be supplied more cheaply and economically through private enterprise than under the municipalities, no one will

[1] See appendix, pages 264, 278, 320.
[2] See appendix, page 270.
[3] See appendix, page 282.
[4] See appendix, pages 282, 283, 286.

be disposed to question that line of policy.[1] What everyone wants is to get the best service at a reasonable cost.[2]

AN OFFICIAL INVESTIGATION UNDERTAKEN.

Without a presumption for or against the policy of municipal or private ownership and operation of public service industries, the United States Department of Labor has undertaken a complete and thorough statistical investigation of the cost of services rendered by water, gas and electric lighting works. In announcing his purpose to do this, at the Twelfth Annual Convention of the National Association of Officials of Bureaus of Labor Statistics, Hon. Carroll D. Wright, United States Commissioner of Labor, said:[3]

"The theory of statistics which actuated the committee (in considering the subject of this investigation), was not whether municipal ownership was desirable, but whether an investigation could be instituted which would enable municipalities and the citizens thereof to determine whether there was any advantage to the consumers in such ownership, or whether, on account of the cost, they should continue in the old way. It is purely a question of business.

[1] See appendix, page 302.
[2] See appendix, pages 271, 285, 302.
[3] See appendix, page 308.

* * * We will have an investigation which will cover every one of the states and territories of the United States, thus giving the public a complete statement of the extent to which municipal ownership has been carried in this country. * * * It is our duty to our constituents everywhere to see to it that they may be informed on this great question which is being agitated more and more every year, and informed with all the accuracy that it is possible to put into the information. Every man in the United States, whether he believes in municipal ownership or whether he opposes it, will welcome this investigation in the warmest way."

Every mayor of a municipality, every member of a city council, every governor, and every member of a state legislature, in fact all of the people, can unite in desiring the complete success of this impartial and authoritative investigation.[1]

DIFFICULTIES IN THE WAY OF SUCCESS.

The past claims our attention by reason of its ability to furnish trustworthy guidance for future action. It is the consensus of opinion of all who have given earnest and intelligent attention to the subject, and who have had experience with it, that reliable, comprehensive statistics—the only kind of data that can

[1] See appendix, pages 313, 216, 320.

be of service—cannot be obtained by correspondence.[1] They can be had only by expert personal solicitation,[2] and even then it is feared that in a large portion of instances the essential facts will be difficult or impossible to ascertain.[3]

The most serious obstacles in the way of securing statistics sufficiently comprehensive and reliable for safe and fair comparisons are to be found in the multiplicity of variables in the basis for prices for services, and statements of cost, largely caused by a regrettable want of uniformity in systems of accounting.[4] There will be many inquiries essential to a correct result which cannot be answered from records of accounts as kept, the information for which can only be given by making carefully considered estimates.[5]

Prices quoted without any specifications to show what is delivered for the price, and unaccompanied by a clear statement of all local conditions necessary properly to explain the price, are not a reliable basis for comparisons.[6] Prices so quoted have been the means of disseminating more misinformation, and doing more injustice than any other feature of the discussion of the subject of a correct public policy re-

[1] See appendix, pages 288, 321, 323.
[2] See appendix, pages 263, 276, 281, 285, 295, 300.
[3] See appendix, pages 43, 69, 287, 288, 297, 298.
[4] See appendix, pages 86, 277, 277, 296, 308, 323.
[5] See appendix, pages 293, 323.
[6] See appendix, pages 280, 286, 298, 304.

garding public service. It is fundamentally necessary that every factor essential to show what a user, or a taxpayer, gets for the price he pays, and why the price charged is reasonable, shall be included in the questions asked to obtain the information upon which a report is to be founded.[1] If this is completely and faithfully done, the investigation will be of great service to the people, and its full value cannot be easily computed. That the investigation may be thorough, quickly made, and fully reported, it is desirable that its scope, methods and purpose shall be cordially approved by those best able to judge of its essential character.[2]

VARIABLE BASIS OF PRICE FOR WATER SERVICE.

Meter rates are based on quantity consumed. All other systems of charging are based upon estimates. Schedules based on estimates are formulated on widely different plans, such as the number of fixtures, rooms, or persons in the house; or the height of the house, the number of feet front of the lot it occupies, or the purposes for which water is used.[3] All such schedules are of necessity more or less inaccurate and work unevenly, requiring consumers under certain conditions to pay but little and under other conditions

[1] See appendix, pages 283, 309.
[2] See appendix, pages 282, 303, 311, 326.
[3] See appendix, pages 283, 286.

to pay exorbitantly for the water they use. While the supplying of water is, in comparison with gas or electrical service, an exceedingly simple undertaking, the methods of charging for the service present so many variables it has been impossible to find any common unit or basis for price.[1] Within six weeks the officer in charge of the Water Department of Washington, D. C., indorsed the complaint of a water user regarding the method of rating houses for water rent by the number of feet front and stories high, with the statement that "it would be inadvisable to make a change unless it was positively a certainty that a more uniform schedule of rates could be devised, and of this there is no evidence whatever."

In some cities water in its natural condition is delivered to consumers; in others it is purified. In some the source of supply is near at hand, so located that it is delivered by gravity, and so abundant that no storage is required. In others the source of supply is distant, so located that it must be pumped or raised to stand-pipes or tanks, and so liable to scarcity that it has to be stored. In some cities it is the policy to derive only sufficient income from the waterworks to pay operating expenses, leaving principal and interest on bonded debt and all fixed charges to be paid by taxation.[2] In others the policy is to make the income

[1] See appendix, pages 286, 293.
[2] See appendix, pages 292, 294.

pay for the works, principal and interest, and to cover all fixed charges and operating expenses, thus placing on water consumers, by indirect tax, the cost of all water used for fire protection, street cleaning and other public purposes.[1] The effect of all these variables is to render a statistical comparison of cost to users and taxpayers for water service in the different cities one of the most difficult features in this investigation. In the light of this fact it is seen how unjust comparisons of prices for water service frequently are, as usually made, and why. The householders, the merchants, and the manufacturers of a city are misinformed by being furnished with quotations of prices in other cities which give no explanations to account for apparent differences.[2] The prices owners of private waterworks are permitted to charge are forced nearly to the cost of the service, by the statement that prices in municipalities where the works are owned and operated by the city are very much less, no showing being made of the amount the taxpayer is required to contribute to make good the deficiency caused by the low price.[3] One good result from this investigation may be to promote the use of water meters, or to establish some basis for contract prices that will admit of uniform schedules and comparisons.

[1] See appendix, page 288.
[2] See appendix, pages 286, 289, 292.
[3] See appendix, pages 60, 285, 287.

VARIABLE BASIS OF PRICE FOR GAS SERVICE.

In the gas business there is an established unit for output and price which greatly simplifies the problem of how to obtain data for equitable statistical comparisons. The variables are found in quality of gas furnished, area over which it is distributed and aggregate consumption.[1] Units, such as the ton of coal, the caldron of coke and the barrel of tar, differ widely in different localities.[2] A ton of coal might seem to be a unit of precision, but it varies in different works nearly twelve per cent. In some states the reckoning is not by the ton, but by the bushel.[3] In spite of these facts, prices charged in one place are used, without explanation, to influence the price charged in other places, always to reduce, but never to increase it. The facility with which such misinformation is spread over the country brings all municipalities into one vast trust to secure through reflected effort what they cannot gain in isolation. The councilman who votes for a price for gas in excess of the lowest price any of his constituents may have heard of as being charged elsewhere must be prepared to meet the charge of being a "boodler," and to answer insinuating questions. Misinformation breeds

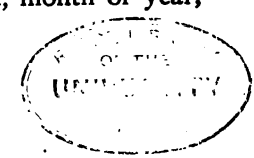
[1] See appendix, pages 585, 586.
[2] See appendix, page 299,
[3] See appendix, page 299.

discontent, suspicions and prejudices which otherwise would find no lodgment in the minds of the people.[1]

VARIABLE BASIS OF PRICE FOR ELECTRICAL SERVICE.

Electrical services are charged for by meter and by contract rates. The meter units are ampere, watt and kilowatt hours.[2] Electricity, unlike water or gas, cannot be stored for future use in a reservoir or holder. Some attempts are made to utilize storage batteries in this behalf, but their use is not sufficiently general to influence results for the business when considered in its entirety. The most difficult problem for the manager of an electrical plant is to find full employment for it during all the hours any part of the service he is required to perform makes it necessary to keep it in operation. For this reason meter rates alone are not a reliable basis for comparisons, as the rate given is influenced by the hours of service. This observation holds good also in contract rates for lighting and motor service. The price per lamp is based upon the current consumed by the lamp, the number of lamps installed for the use of one customer, the number of months or years for which the contract is made, and the hours of service given per lamp per day, month or year. To say that the price per arc lamp in a certain city is so much per hour, night, month or year,

[1] See appendix, page 254.
[2] See appendix, page 298.



is absolutely meaningless as a basis of statistical comparison.[1] A statement of price which does not show what is delivered for the price, has no statistical value. In prices charged for motor service, variables are found, principal among which are the purposes for which motors are used. Occupations requiring a motor of small capacity to run continuously, will consume much more energy than other occupations requiring a motor of large capacity to operate intermittently. In such cases a uniform charge per horse power for the motor installed would be unjust. The basis of the charge, under a contract rate, must be the use of the motor rather than its capacity.

An important factor affecting price is found in the character of the construction of the distributing system.[2] In densely populated cities where the service lines are placed under ground, the cost of the system is very much greater than in small towns where few structures make a pole line an attraction. This variable is sometimes complicated by a requirement that compels the lighting company to hire ducts from a subway company, or the municipality, at an annual cost which perceptibly increases the cost of the lighting service.

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[1] See appendix, pages 294, 299.

[2] See appendix, page 278.

VARIABLES CAUSED BY LOCAL CONDITIONS.

In addition to the many variables due to the technicalities and methods of each industry, are the variables caused by local conditions which affect all of the services in the same general direction.[1] The cost of power, whether water or steam, is an important variable. In the case of steam the variable is based on cost of fuel and water.[2] Other variables are: density of population, or the concentration of business in relation to area;[3] character of subsoil, affecting cost of underground construction; character of climate, affecting cost of operation and maintenance; taxation in all forms;[4] and interest on investments, affected by the soundness and stability of public policy.[5] To make a reliable statistical comparison of prices, the influence of all these factors on price must be shown, or at least, the variables must be stated in a way to explain the reasonableness of variations in price.

PRICE IS COST TO USERS AND TAXPAYERS WHEN SERVICES ARE RENDERED BY PRIVATE CORPORATIONS.

When an industry is owned and operated by a private corporation the cost of the service to users and

[1] See appendix, pages 279, 287, 304.
[2] See appendix, pages 280, 290.
[3] See appendix, pages 278, 286, 296.
[4] See appendix, page 273.
[5] See appendix, page 319.

taxpayers is limited and fully included in the price paid for it. Users and taxpayers as such, are not interested in the details of cost of construction, general expenses, fixed charges, operating expenses, and maintenance. Their interest begins and ends in all considerations which explain the price they pay for the service, and furnish a basis for establishing the reasonableness of that price.[1] The people are right in demanding that services shall be rendered in the best manner known that has been made commercially practicable, and at the lowest fairly profitable price[2] In determining these points the representatives of the people, whether mayors of municipalities, or members of city councils, governors of states, or members of legislatures, can have no better guide than the facts of experience. That experience may be available and authoritative, the facts developed under it must be collected, tabulated and reported by an expert, impartial and all comprehensive authority that can reach every corporation and every municipality in the whole country through its duly commissioned agents.[3] It must make a personal investigation of all facts relating to prices charged, and of all conditions necessary to explain such prices. The results of such an investigation will guide judgment to a correct conclusion.

[1] See appendix, page 270.
[2] See appendix, pages 251, 254, 271.
[3] See appendix, pages 77, 285, 312.

COST IS PRICE TO USERS AND TAXPAYERS WHEN SERVICES ARE RENDERED BY MUNICIPALITIES.

In every case, whether a service is rendered by a private corporation or by a municipality, the private user is interested directly only in the price charged for it. In the case of municipal ownership and operation, however, he is also interested in the cost of production, as this will affect his taxes.[1] The consideration offered for his vote in favor of municipal ownership is that the cost of the service will thereby be reduced, and that this reduction will become effectual in the price he is required to pay for what he gets. The struggle for municipal ownership and operation is a struggle to depress the cost of rendering services, not to raise prices for services rendered.[2]

This is the meaning of the agitation for the municipal ownership and operation of public service industries that has taken place in almost every city and town in the United States within the last ten years, and is now rapidly reaching an acute stage of development through being made a political issue. Professor James says:[3] "To continue the farce of allowing competition to regulate prices simply means that good and cheap gas is forever impossible." Professor Bemis

[1] See appendix, page 294.
[2] See appendix, pages 256, 316.
[3] See appendix, page 252.

says:[1] "The financial benefits to the community are in the shape of cheaper gas, or more revenue to the municipality. It is to be hoped that cities may be enabled to dispense with the present necessity, for revenue purposes, of charging more than cost for gas." The "Association for the Public Control of Franchises" of the city of New York says:[2] "What is even more important to the mass of citizens, public control of the means of transportation and illumination will lead to a similar reduction (one-half), in car fares and gas bills." Edward M. Grout says:[3] "The question * * * touches the pocket of every gas user to the extent of from twenty to forty per cent. of his gas bills."

When a service is rendered by a private corporation for the public purposes of a municipality, the price paid by the municipality limits its cost to taxpayers. When the same service is rendered by the municipality for its own account, through the ownership and operation of the industry, the price to taxpayers is the entire net cost of the service.

The "Association for the Public Control of Franchises" of the City of New York, says:[4] "According to the most conservative authorities, half the city's

[1] See appendix, pages 50, 269, 270.
[2] See appendix, page 318.
[3] See appendix, page 320.
[4] See appendix, page 318.

revenues could be derived from its street car, gas and other franchises. In this event, taxes upon private and personal property would be cut in two." Statements similar to this cover the consideration invariably relied upon to secure votes for the approval of proposals authorizing the construction and operation of municipal works for rendering industrial public service. Every Mayor and every member of a City Council, every Governor and every member of a State Legislature, where such a measure has been discussed, is familiar with the representations made to show the economic advantages expected to result, for the benefit of private users and taxpayers, from the adoption of the policy of municipal ownership and operation.[1]

A TRUE BASIS FOR COMPARISIONS.

In the case of services rendered by private corporations, price is cost to users and taxpayers. In the case of services rendered by municipalities, cost is price to taxpayers, and the price charged is cost to private users as such. These facts are established by the conditions of the undertakings, beyond the power of intelligent controversy, or change by legislative enactment.[2] To determine the relative economic ad-

[1] See appendix, page 290.
[2] See appendix, page 318.

vantages derived from private or municipal ownership and operation of public service industries, the price charged by private corporations and the cost of service rendered by municipal works, are, it must be seen, the only correct bases for comparisons. Price charged by private corporations can be ascertained.[1] To ascertain the cost under municipal ownership and operation this investigation must include every item of cost involved in the rendering of the service. The facts needed should all be matters of public record. Assurance is given that they can be obtained.[2] This will give opportunity to the municipal representatives of the people, wherever municipal works are owned and operated, to demonstrate the efficiency of their administration of the people's business. It will afford an opportunity to prove the affirmation of Professor James when he says:[3] "The common argument against the public management that it is necessarily more expensive than private management, is not well grounded, either in reason or fact." It is an opportunity to add the authority of experience to the inference made by Professor Bemis when he says:[4] "The argument that cities can manage gas works successfully because they have succeeded with water works, has been frequently made, and has force."

[1] See appendix, pages 76, 281, 287, 310.
[2] See appendix, page 311.
[3] See appendix, page 251.
[4] See appendix, page 269.

This investigation, by the Department of Labor, is entered upon with a full knowledge of its vital importance to all urban citizens, to all municipalities, and to all of the vast investments held in public service corporations.[1] If it shall show that price to users and taxpayers charged by private corporations is unreasonably higher than cost under municipal ownership and operation—and what advocate of municipal ownership believes it is not?—private corporations will have no choice but to reduce their prices or to sell out to the municipalities in which they are located.[2] To this final, crucial test private corporations must submit. This test will bring the struggle to depress cost of rendering municipal industrial services to an acute stage of development. It substitutes actual competition between private corporations and municipalities, for theoretical competition between corporations within municipalities. The only difficulty in the way of making this test accurate, is the want of uniformity in methods of municipal bookkeeping.[3] In measuring the prices charged by private corporations against cost of production by municipally owned and operated works, justice and the interests of the people demand that all factors of cost shall be correctly and fully included in the accounts.

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[1] See appendix, page 313.
[2] See appendix, pages 251, 302, 319.
[3] See appendix, page 287.

An understatement of costs will be unjust to vast invested interests, and will lead the people into drawing erroneous and harmful conclusions.[1]

When a person buys an article, quality, quantity and price are all his interests require him to consider, but when he contemplates undertaking the manufacture of an article, every item of cost, as well as selling, price becomes of vital importance to him. In comparing price with cost, this investigation will decide for the people of many municipalities a grave question of public policy; whether they will continue to buy the services they need from private corporations or undertake to manufacture them for themselves. In this aspect of the question the accounts of every municipally owned and operated works for the supply of industrial public services becomes of national importance and should be exhibited with absolute correctness.[2]

STATEMENTS OF COSTS.

In the discussions preliminary to deciding upon this investigation, Professor Wilcox drew attention to the fact that the accounts of private corporations or of municipalities are not kept by "any approximately common method."[3] Mr. Baker suggested that

[1] See appendix, pages 267, 286.
[2] See appendix, pages 267, 282, 317, 322.
[3] See appendix, page 277.

"the vagaries of bookkeeping make comparisons almost impossible."[1] Mr. Howes gave a word of caution against "a disposition to understate cost of construction." Mr. Baker stated:[2] "A uniform system of accounting is of the highest importance in statistical work. It may be doubted whether reliable statistics are possible without it. There is, according to my own observation, great lack of uniformity, not only throughout the country at large, but within the limits of a single State. The fact that business has come to be much less profitable than formerly has imposed upon managers a desire to compare among themselves reliable data, and to this end to seek uniformity of accounts and records, so that the present tendency is strongly in that direction."[3]

In 1890, when Professor Adams read a paper before the American Economic Association under the title of "Statistics as a Means of Correcting Corporate Abuses," the attention of the Association was directed to the vital importance of a uniform method of determining cost.[4] All professors of political economy, all writers and speakers of every school of thought who have to do with creating, guiding, and applying public opinion to the affairs of the people

[1] See appendix, page 287.
[2] See appendix, page 289.
[3] See appendix, page 296.
[4] See appendix, pages 265, 267, 282.

are obliged by the nature of this subject to appeal to statements of cost to establish their theories or to justify their action. This convention can do no wiser thing than to invite the American Economic Association to formulate a system of accounting for all municipal affairs that will make reliable comparisons practicable, and will show accurately all factors of cost.

Although uniformity in accounting does not exist, it is believed, by the use of schedules designed properly to classify and include all factors of cost, statistics can be collected that will form a basis for reliable comparisons. The general divisions of these schedules would be:

1. Cost of Works.
2. General Expenses.
3. Fixed Charges.
4. Operating or Manufacturing Expenses.
5. Maintenance.

Appropriate subdivisions would be made under each general heading. By carefully apportioning the total of each general division to the several items included in it, a result could be reached from the accounts of any public service industry, whether owned and operated by a private corporation or by a municipality, that would be a true statement of cost, and furnish a reliable basis for comparison.[1] By using the same

[1] See appendix, page 309.

schedule for private corporations and for municipalities, and basing all calculations on the cost of the works, the disturbing factors of "watered stock" on one hand, and "official corruption" on the other hand, will be entirely eliminated from the problem. Interest, taxes and depreciation[1] would be calculated on the same basis in every instance, and all other items of cost would be investigated on corresponding lines for private and public management.[2]

If there be a factor of error in this method of conducting this investigation it would be against private and in favor of municipal ownership. Interest would be computed on the cost of the works, in all cases —no regard being paid to how they might be capitalized or bonded in the case of a private corporation— at the rate per cent. paid by the municipality on its public debt. The conservatism of this course is unquestioned. Professor Bemis says:[3] "The bonds of a public plant usually bear a lower rate of interest than those of a private company." Mr. Edward M. Grout says:[4] "The situations of these cities (referring to several cases of municipally owned and operated works) are too diverse, the savings to the public are too great to enable us to explain away these results

[1] See appendix, pages 283, 293, 300, 321.
[2] See appendix, page 288.
[3] See appendix, page 283.
[4] See appendix, page 320.

by any differences in the prices of labor or coal. The results are due chiefly to the fact that cities can borrow money about three per cent. cheaper than private corporations, and to the additional fact that cities do not attempt to "water" the capital employed, nor to pay dividends upon fictitious capital, or capital which has been used up and consumed a generation ago, and which ought to have been long ago charged off to depreciation."

Taxes paid by private corporations would be offset by including in the municipal statement an amount equal to the taxes that would be collected from the business if owned by a private corporation.

Depreciation would be calculated at the same rates per cent. in both cases. Professor Bemis says:[1] "Taxes must be included in municipal accounts in comparing with private companies. * * * It must be borne in mind, however, that a plant belonging to taxpayers may let depreciation rest in the hands of the consumer, where it can be put to more profitable use until such time as it may be needed, when it can be raised by taxation."

It should be clear to any mind that a result of operation which must ultimately be paid for by taxation is a part of the cost of operation and should be charged into the cost for the year covered by any state-

[1] See appendix, page 283.

ment of cost. Mr. Howes says:[1] "In electricity, particularly, invention, constantly changing conditions, uncertain and varying systems of maintenance, and constant improvements make depreciation very large." Mr. Barker says:[2] "Depreciation is a part of the cost of operation, as much as either coal or labor. It should include deterioration due to use, reduction in market price of apparatus, which becomes commercially useless through the progress of the art, and the displacement of appliances, not worn out, but displaced on account of the growth of the business, making reconstruction and rearrangements of the works necessary." Mr. Edward M. Grout says:[3] "Everything is included in them (referring to accounts of municipally owned and operated works in England). * * * Interest on investments, taxes, insurance, depreciation, repairs and betterments, all operating expenses (including good wages and salaries), a sinking fund and a reserve fund, all are charged before net profits are reckoned."

The cost shown on the schedules of the United States Department of Labor for municipally owned and operated works, would be arrived at exactly as it would be for private corporations. The comparisons would be cost of construction with cost of con-

[1] See appendix, pages 292, 293.
[2] See appendix, page 300.
[3] See appendix page 321.

struction; interest with interest; taxes with taxes; depreciation with depreciation, all computed on the same basis and at the same rates per cent., and all other costs, item for item.[1]

VARIABLES IN LEGISLATIVE CONDITIONS.

Some factors of high potency, influencing the price charged users and taxpayers for services rendered by private corporations never appear in the cost price of services rendered by municipalities. They may be gouped under the general term of Legislative Conditions. They are met with at every point of contact between private corporations and state or municipal authorities, users and taxpayers, from the obtaining of a company's charter or certificate of incorporation to the collection of payments for the services it may have rendered.[2]

Under the most favorable circumstances there will be many occasions for honest differences of opinion between corporation managers and the elected guardians of the people's interests, when they are dealt with in a spirit of fairness and just appreciation. But when the minds of the people are prejudiced by insinuations and unproven statements, which make the advocacy of measures designed to "down monopoly" popular, conditions are created which lead to the load-

[1] See appendix, pages 309, 323.
[2] See appendix, page 306.

ing with onerous requirements of every contract and privilege it is necessary for corporations to negotiate with or obtain from municipal councils and officials. Municipal, being political, corporations have none of these conditions to contend with, none of the uncertainties caused by them to include and provide for in the factors of risks assumed in undertaking the business. Their property is recognized as public property and goes untaxed by municipality, county or state. The municipal government has absolute control over the requirements for placing structures on, over or under the streets; opening, repairing, cleaning and sprinkling streets; the regulations necessary for the proper and efficient rendering of any public service; requirements for its quality, quantity and price; specifications regarding methods of production, distribution and location of lines of service; the motive power that may be used; the exclusion of competition; the division of the territory to be served, whether there shall be but one organization for the whole municipality, or several; and the period of time during which the works may be operated. When the municipality owns and operates the works, no one supposes for a moment that it can make a gain by inflicting penalties, raising obstructions, or stipulating unnecessary, unscientific, uneconomic requirements for their construction and operation. No one advocates the raid-

ing of the territory supplied by municipal works by another municipal works, or of dividing the business of a municipality between two or more unrelated municipal works as a means of reducing the cost of the service. No one intimates that municipal works should be constructed on approval by limiting the right of the municipality to own and operate them to a specified term of years, twenty, thirty or fifty. No one requires a municipality to terminate its public lighting service every one, three, five or ten years, and then to make an exhibit of the cost price of the service; its continuation to be determined by the acceptance of a bid, in the securing of which, proposals may have been invited from all competitors, some of whom may make a bid less than the cost of the service, for the purpose of getting access to the business places and homes of the people, relying on recovering from private users all that is lost on the public contract, with a surplus for its profits. The advocates of municipal ownership place a high value on franchise conditions. They hold a franchise, such as a municipality necessarily assumes for itself when it undertakes the ownership and operation of a public industrial service—which is all inclusive, exclusive, perpetual and untaxed—at a value higher than anything else within the control of a municipal council or of a State legislature. For nothing else within the

sphere of legislative action are members of municipal councils and State legislatures blamed so severely and held up to public scorn and condemnation with so much indignation as for the so-called "giving away of franchises." The value placed on franchises by indignant champions of the rights of the people are never included in investments or fixed charges as a part of the cost of municipal ownership and operation.

No one can better estimate the influence of all the factors of cost and uncertainty included in this group of "legislative conditions" than the practical business men who are charged with the responsibility of legislating for and administering municipal affairs. Whatever value they, or the advocates of municipal ownership and operation, may attach to these conditions should be added to the cost price of municipal services to be shown in the report of this investigation by the United States Department of Labor.[1] These intangible values cannot be determined by statistical methods, but they are as much a part of the cost of the service, and must be taken into consideration to explain prices charged by corporations, as the cost of coal or labor, to make comparisons equitable and fair between price cost to users and taxpayers for services rendered by private corporations, and the cost price

[1] See appendix, page 302.

of the same services when rendered by municipalities.

There is an eminently practical way in which the true value of these legislative conditions can be ascertained and utilized for the benefit of all the people. It can be accomplished by making legislative conditions for private corporations and for municipalities identical, under a contract requiring the fixing of prices charged by private corporations at rates calculated to yield only sufficient income fully to pay all general expenses, fixed charges, including interest on the investments, taxation and depreciation, operating or manufacturing expenses, the cost of maintenance and a reasonable profit, say ten per cent. Such a contract will realize for the people the full value of the economic legislation suggested by Professor Adams when he says:[1] "It should be the purpose of all laws touching matters of business to maintain the beneficent results of competitive action while guarding society from the evil consequences of unrestrained competition."

The investigation of water, gas and electric lighting works now undertaken by the United States Department of Labor on the lines herein indicated would result in the publication of statistics that will serve as a reliable and just basis for comparison between price

[1] See appendix, page 253.

and cost of services to users and taxpayers, when rendered by private corporations and municipalities. It should supply a reliable and just basis for comparisons between the prices charged by private corporations and the cost of service rendered by municipalities, and it should accompany these statements with explanations that will enable members of city councils, municipal officers, users of the services and taxpayers, to form a correct opinion regarding the reasonableness of the price, or the cost of the service in their own municipality.[1]

MUNICIPAL COST A REGULATOR FOR PRICES.

Assurance is given by Professor Bemis,[2] that, "when the real success thus far of city ownership in this country is once generally known, a rapid increase in the number of such works is sure to come," and "that a thorough publicity can be given to the facts regarding municipal monopolies."[3]

In 1888, Professor Henry C. Adams called attention to the fact that,[4] "There is no need to discuss this question as something wholly new, or on the basis of theory alone; for we have at hand a sufficient number of experiments from which to draw tenable conclusions. * * * We may apply the experience

[1] See appendix, page 313.
[2] See appendix, page 270.
[3] See appendix, page 282.
[4] See appendix, page 261.

gained in a small way to the establishment of some general rule or principle. * * * Public ownership in some towns serves as a check upon the private management of the same industry in other towns. * * In the one case (water works) the public have a fairly satisfactory rule of judging what good management is, which in the other case (gas works) is wholly wanting."[1]

At the same time Professor Knight stated,[2] "There are a sufficient number of specific examples (of municipally owned works), in the United States, so that we may dispense with theory, if only we can get the requisite information concerning these specific cases."

Since 1888, the number of examples has increased, in water works from 544 to 1,900; in gas works from 5 to 25; in electric lighting works from none to 400. The last figures in each case are estimated. The statistics sought in 1888[3] have not yet been obtained; therefore, all the discussion, all the action, all of the harm done to private investments during these years has come as the result of developing a theory unsupported by facts. In the light of this statement, it is difficult to conceive of a service of more vital importance to the urban population of this country, and to the municipalities in which they have made their homes, than

[1] See appendix, page 262.
[2] See appendix, page 264.
[3] See appendix, page 257.

will be rendered by making this investigation comprehensive and accurate in every detail. No greater public service can be performed by members of the City Councils and Municipal officers—especially those in cities or towns that own and operate any of these works—than by cordially co-operating with the United States Department of Labor in every desirable and practicable way in expediting this investigation so that its results may be available within the shortest possible period of time. There is not a Mayor, nor a City Council in the United States that has not time and again felt the urgent need of such statistics as this investigation is designed to gather and publish for the information of all the people.[1] There have been many cases where committees of City Councils have spent much time and money to secure data such as this, but have not been able to reach satisfactory results. Private corporations have been compelled to suffer heavily in some instances, and generally to experience much disquietude on account of erroneous opinions based on statements unsupported by facts, which could not be successfully controverted because of the impossibility of obtaining the facts from an impartial source which would be accepted by all parties as authoritative.[2] In the broadest and best sense it is

[1] See appendix, page 313.
[2] See appendix, pages 297, 312.

to the interest of the people, of municipal governments, and of public service corporations to welcome this investigation and assist its successful prosecution in every way that comes within their respective spheres of action.[1] This is especially true because it will cause existing municipal works to perform a new function of national importance. Municipal cost will become a regulator of price.

The cost of services under municipal ownership and management, ascertained and published as described, will become a regulating force in determining the price for services that will be agreed upon as reasonable to be charged by private corporations everywhere throughout the country. If this were the only purpose of the investigation, no interest touched by it could afford to permit it to fail or even to be hindered.

SECRECY OF PRIVATE ACCOUNTS.

It will be noticed that no reference has been made to the cost to private corporations of the services rendered by them. Such an inquiry is not necessary for the purpose of determining a reasonable price to be charged for the services when the cost of services to municipally owned and operated works is made the basis for comparisons with prices charged by private

[1] See appendix, page 302.

corporations.[1] In order to leave nothing undone that can be done to render this investigation of the highest importance and value, I understand it is the intention of the United States Department of Labor to investigate the cost of services to private corporations in the same form it uses for the investigation of municipal works.[2] In discussing this point, Mr. Barker says:[3] "The Massachusetts law which compels companies to exhibit exhaustive data, * * * couples with the power to collect data, the power to protect a company against unreasonable exactions by the municipality and to preserve its territory against the inroads of rival concerns."

There is, of course, no national law of this character, but I learn that the United States Department of Labor will guarantee, as it always does, that the information given shall not be used in a way to enable any one to trace it to the municipality of its origin. This fact will be relied upon to secure from them an unhesitating response to the inquires necessary to be made in investigating this branch of the subject.

A CHANGE OF SYSTEM RECOMMENDED.

One cannot make an exhaustive examination of this subject without reaching the conclusion that the mistakes of the past and the antagonism to private

[1] See appendix, page 309.
[2] See appendix, page 311.
[3] See appendix, page 298.

corporations engendered by them grow out of the attempt to regulate prices by force—the force of competition—instead of basing them on the cost of production.[1] The experience gained demonstrates the fact that the principles and methods of competition cannot be applied to public service industries. They must be protected and regulated as monopolies.[2] Professor Adams has well said:[3] "The end of criticism is construction. Its service should be to point out the way in which men may avoid the recurrence of mistakes disclosed." The evils complained of with so much justice, on the part of the people and of private corporations, result from the existing system.[4] They cannot be eradicated in the best way without changing the system. What this change should be, its general direction and form, and the reasons for recommending it, are fully stated in the discussion of the economic principles involved in "The Law of Incorporated Companies Operating Under Municipal Franchises."[5] That State which first succeeds in intelligently changing its system, or want of system, of organizing and controlling municipal, political and industrial corporations, by adopting a system in conformity with the outlines therein given, will soonest establish the con-

[1] See appendix, pages 255, 256, 257.
[2] See appendix, page 269.
[3] See appendix, page 257.
[4] See appendix, page 269.
[5] See appendix, page 320.

ditions that will induce the greatest degree of prosperity and well-being for its municipalities and their inhabitants; so conditioned and so controlled, municipal, industrial monopolies will become the friends and servants of the people, and will render the best services of which they are capable at the lowest obtainable cost to users. This result is predicted with undoubting confidence because the prediction is based on a well known fact of human nature. The desire for a good, joined with a reasonable expectation of attaining it, rather than fear and apprehension, are the forces that quicken the energies of men to their best endeavor.[1] The system recommended is based upon the utilization of the economic value of the energy of hope applied to the production of the means of supplying municipal public services. Those whose only desire it is to secure the best services at the lowest price for users and taxpayers, will see that their object can be gained in the way indicated.[2]

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[1] See appendix, page 253.
[2] See appendix, pages 251, 276, 280, 285, 302.

APPENDIX.—PART III.

The following extracts show the best thought of able teachers of political economy, of widely known writers and speakers upon the general subject of municipal industrial public services, upon the organizations by which such industries may be best carried on; the efforts made to obtain reliable statistics by which to test theories and to guide public policy; the difficulties met with in undertaking statistical investigations of the subject; and a wide spread and urgent demand for information that all parties to the controversy of private vs. municipal ownership and operation can accept as broadly comprehensive, impartial, and authoritative. A careful reading of these extracts will lead any interested mind to the conclusion that no work of greater importance can now be undertaken by the United States Department of Labor, than that of making a complete and thorough investigation of all works, private and municipal in this country, engaged in supplying water, gas and electricity for the public and private uses of the people.

EXTRACT FROM PUBLICATION OF THE AMERICAN ECONOMIC ASSOCIATION.

The first publication of the American Economic Association on this subject (1886) is a monograph by Edmund J. James, Ph. D., under the title of "The Relation of the Modern Municipality to the Gas Supply."[1] Professor James summarizes his conclusions as follows:

1. A good supply of pure and rich gas at low prices has become an absolute necessity of life in our modern city.

2. The technical and administrative conditions of the manufacture and distribution of gas, make the business a practical monopoly.

3. We must choose, then, between a monopoly in the hands of private parties and municipal ownership and operation.

4. No one proposes to hand over the business to a private monopoly without at least an attempt to regulate it in the interest of the public.

5. The common argument against the public management that it is necessarily more expensive than private management, is not well grounded, either in reason or fact.

6. The argument that if private works manufacture the gas they will not take part in politics in such a

[1] Publications of the American Economic Association, Vol. I., Nos. 2 and 3, 1886.

way as to bring about the results inevitably connected with public works, is not well taken.

7. This action in politics is very evident by its fruits, since no country in the world has been able to secure effective supervision, which has not at the same time been fully able to manage the works through the government. It is idle to expect to be able to keep the companies within bounds.

8. The business of furnishing a necessary of life which can be carried on only in the form of a monopoly, is never safe in the hands of a private company.

9. To continue the farce of allowing competition to regulate prices simply means that good and cheap gas is forever impossible.

10. The conclusion of the whole matter is that the best form of management of the gas industry is the public one, and that, if for any reason it is not resorted to, the community is constantly suffering a serious loss and that too, no matter how successful the business may seem to be in private hands.

The monograph of Professor James, which attracted world-wide attention, was followed in 1887 with a monograph by Henry C. Adams, Ph. D., Statistician to the Inter-State Commerce Commission, under the title of "Relation of the State to Industrial Action."[1]

[1] Publications of the American Economic Association, Vol. I., No. 6, 1887.

The marked ability with which Professor Adams discussed his subject is clearly shown in the following selections from his paper. They cannot fail to arrest the attention and deeply impress every thoughtful mind:

It should be the purpose of all laws touching matters of business, to maintain the beneficent results of competitive action while guarding society from the evil consequence of unrestrained competition.

There is no presumption for or against either the one or the other in itself considered, for both are essential to the development of a highly organized society, and the purpose of constructive thought should be to maintain them in harmonious relations. It is the future and not the past that claims the attention of men. It is hope and ambition, rather than fear and apprehension that move the energies of men. We should not forget that the material progress of the Nineteenth Century is in a large measure due to the mobility of action which the idea of equal rights before the law brought into modern life.

Whenever the conditions for competitive action are maintained, society has a guarantee that goods will be produced at the lowest possible cost.

An industrial monopoly may be defined as a busi-

ness superior to the regulating control of competition.

The distrust with which monopolies are universally regarded arises from the fact that the public is deprived of its ordinary guarantee of fair treatment, so far as it must have dealings with them.

The rule of private financiering is to maintain the price of goods or services at the highest price which has no tendency to curtail profitable business. * * * The only guarantee against exorbitant rates lies in the fact that purchasers are free to choose from whom they will buy.

The rule of public financiering is to render services at the lowest price consistent with effective service. Price equals cost. * * * The guarantee that price will not be more than cost of production, including salaries of officers, lies in the publicity of accounts, and in all that goes to make up efficient service.

There are many industries which, from their nature, are monopolies and cannot, therefore, be safely consigned to the guidance of the rule of private financiering. It is certainly absurd to say that a business superior to the regulating influence of competition, con-

ducted according to the principle that the highest possible price should be demanded for services rendered, can be managed in a spirit of fairness to the public. Such a business ought to be made to conform to the rule of public financiering, but the common prejudice aroused by the teachings of laissez-faire renders this difficult of accomplishment.

So long as public opinion holds to the presumption in favor of private management, and, as a natural consequence, refuses to enter upon a candid analysis of the nature of industries for the purpose of discovering which of them may be safely consigned to the guidance of competition, large numbers of private monopolies will be maintained.

Bastiat is right when he speaks of the interest of the consumer as identical with the "social interest," in so far as this question of monopolies is concerned; for it is only when we regard the problem from the point of view attained by considering the collective interest of society, that we can secure a just appreciation of the relations of government to business activity.

The practical conclusion is that society should be guaranteed against the oppression of exclusive privileges administered for personal profit, while at the

same time it should be secured such advantages as flow from concentrated organization. I do not at present undertake to say whether this should be done through carefully guarded franchises, through official commissions, through competition of the State with private industries, or through direct governmental management; but in some manner this purpose should be accomplished.

Such monopolies as exist should rest on law and be established in the interests of the public.

The struggle for superior success in these businesses (those subject to the law of increasing returns) is a struggle to depress the cost of rendering services rather than to raise prices for services rendered.

If it is for the interest of men to combine, no law can make them compete. For all industries, therefore, which conform to the principle of increasing returns, the only question at issue is, whether society shall support an irresponsible, extra legal monopoly, or a monopoly established by law and managed in the interest of the public. In this latter way may the benefits of organization in the form of monopoly be secured to the people and in no other.

If this essay have any merit, it consists in its candid

recognition that the science of industrial society has not rendered to humanity the highest service of which it is capable until its analysis of social relations discovers some principle for the guidance of legislation in directing or eliminating competitive action.

The theory of democracy, in addition to urging that power should only be placed in the hands of responsible agents, demands that all powers granted should lie as closely as possible to those upon whom they are exercised. This is equivalent to saying that local governments are the stronghold of democracy and that they who profess to believe in democracy should come to the defense of the States against encroachments upon their original powers.

These (monopolies), it is claimed, should be controlled by state authority and it is suggested that the American theory of political liberty will lead men to rely as far as possible upon the efficiency of local governments in the exercise of such authority. When one considers the present attitude of private corporations towards the public, and the relation which exists between the Federal Government and the State Government, he is constrained to say that the time is ripe for the rise of a democratic party.

The end of criticism is construction, and its service

should be to point out the way in which men may avoid the recurrence of mistakes disclosed.

AN UNSATISFACTORY INVESTIGATION.

In January, 1888, the American Economic Association published a report made by its special committee on Public Finance on "The Relations of Modern Municipalities to Quasi-Public Works." [1]This committee was composed of Professor Henry C. Adams, Chairman, University of Michigan, and Statistician to the Inter-State Commerce Commission; Professor George W. Knight, Ohio State University; Professor Davis R. Dewey, Massachusetts Institute of Technology; Mr. Charles Moore, Editor Evening Journal, Detroit, Michigan; Professor Frank J. Goodnow, Columbia College, New York; and Professor Arthur Yager, Georgetown, Ky. In his letter of transmittal the Chairman, Professor Adams, says:

Your committee have, during the past year, turned their attention to an investigation of the relation of the modern municipality to certain businesses of a quasi-public nature. It may be well to say frankly at the outset that the result of their investigation is to them the occasion of grave disappointment. It was their desire to make a full and complete portrayal of

[1] Publications of the American Economic Association, Vol. II., No. 6, 1888.

the facts pertaining to municipal public works in the United States. This they soon discovered was impossible. To say nothing of the time which such a task would have required for its satisfactory completion, the money at the disposal of the committee was not adequate to the needs of so extended an investigation. The Association must have funds with which to endow investigation or its so-called reports will be nothing more than the theorizing of individual members; and this, your committee understand, is the one thing against which the Association has set its face.

The first part of the report is —

A paper on the Relations of Municipal Government to Public Works in the United States. This may be regarded as the general report of the committee. Although thrown into shape by the Chairman (Professor Adams), it is the result of the work of the entire committee; nor could the facts, meager as they are, have been gathered without the courteous assistance of many gentlemen besides.

The object of this paper is two-fold. First to impress the fact that industries of the nature considered are superior to the satisfactory control of competition. Second, to show how far this fact has been recognized by municipal authorities, and what means they have

adopted to guard the people against the abuse of corporate power.

In its report, the committee, through its Chairman, says:

The first purpose held in view was a very simple one. Your committee undertook to learn how far municipal authorities understand the nature of these industries with which they are called upon to deal. Are they aware that in granting charters for water companies, gas works and street railways, they are granting charters for business which, in the very nature of the case, are superior to competitive control; and, in so far as they have recognized this fact, upon what principles have they relied to guard the interests of the public against the enervating influences of established monopolies? In entering upon this investigation it was quickly discovered that the facts sought had never been gathered, and nothing, therefore, remained but to apply directly to the municipal authorities. With this end in view a circular was prepared by means of which it was hoped to learn the attitude of cities with regard to productive property of the sort which has been described.

In drawing up this circular, your committee recognized three ends to be attained. First, it was desired to learn how far cities were proprietors and managers

of any of the businesses mentioned. Second, in case the enterprise had been placed in the hands of private companies, information was sought respecting the nature and extent of the authority retained in determining rates and directing management, and third, inquiry was made respecting the nature of the taxes imposed upon this species of property. Was it subject to ordinary taxation only, or imposed with special duties in return for the special privileges enjoyed.

With regard to the first question, a marked difference was discovered between the policy of municipalities in the management of water works on the one hand, and of gas works and street railways on the other. So far as we were able to discover, no city in this country has ventured upon the ownership and management of street railways; five cities only are proprietors of gas works—Philadelphia, Richmond, Danville, Wheeling and Alexandria, Va.—but there are 544 towns in the United States proprietors of water works." (No mention is made of electric lighting plants. This was in 1888, before such plants were in general use.)

There is no need to discuss this question as something wholly new, or on the basis of theory alone; for we have at hand a sufficient number of experiments

from which to draw tenable conclusions. With regard to the problem of municipal proprietorship we may proceed, as we have always been accustomed to proceed, in the presence of any proposals for a reform in government; that is to say, we may apply the experience gained in a small way to the establishment of some general rule or principle.

In the second place, a comparison of the management of gas works with the management of water works in this country, seems to warrant the conclusion that public ownership in some towns serves as a check upon the private management of the same industry in other towns. It is generally admitted that, on the whole, the administration of water works is subject to fewer criticisms than that of lighting works, and there is reason for believing that this is in part due to the fact that in the one case the public have a fairly satisfactory rule of judging what good management is, which in the other case is wholly wanting. There is something to be said in favor of the thought that a mixed system, such as exists in the business of water work supply, is perferable to a system of universal control by either public or private corporations.

And lastly, it is worth mention, that the opinion to which we come with regard to the policy of municipal

proprietorship, will of necessity determine our views upon the question of local indebtedness. Before any successful administration of public works by municipal authorities can be expected, it will be necessary for the people of this country to become more familiar than they now are with the principles of the science of finance.

In discussing questions pertaining to the fixing of rates to be charged by private companies, this report very wisely says:

It is impossible for a Board of Aldermen, or a legislative body, to determine a rate that will be fair to both the public and the corporation. This can only be done by men who have had long familiarity with the details of the business.

The report closes with the following statement:

This general subject of the relation of municipal government to water works, lighting works and street railways is certainly pertinent to the times in which we live. Your committee have been somewhat discouraged in their endeavor to gather facts sufficiently comprehensive and reliable for safe generalization; they have, however, succeeded in impressing upon themselves the magnitude and complexity of the question.

Professor George W. Knight, of the Ohio State University, to whom was assigned the special subject of water works, made an informal report in a letter to Professor Adams, the chairman of the committee, under date of February 1st, 1888, which is given in full in the publication mentioned. In this letter Professor Knight says:

Any study or report worthy of publication by the Association as coming from the committee, must, as you have urged in the preliminary report, be based on observed facts, not on theoretical speculations. There are a sufficient number of specific examples in the United States, so that we may dispense with theory, if only we can get the requisite information concerning these specific cases.

In the report on water works the main and ultimate question to be answered is, "What are the comparative efficiencies of public and private control of water works systems in our cities?" What a faint light the statistics, which the committee gathered by its joint labors, throw upon this, you know full well.

In order to get hold of the necessary data I have sent scores of letters and inquiries, the majority of which have been entirely or partially unanswered. Perhaps a score of cities are in hand with satisfactory

data; others with but partial and incomplete figures. To base a general report for the United States upon the study of that number of cities is absurd since it is "observed facts, not theoretical speculations," that are desired.

I have put a report on my subject into two or three shapes, but in no case have I reached anything in the way of final and authoritive results. The data are lacking, and a report made now would be nothing but a study of a few cities, and I am not certain that any of its results would hold good for the same number of cities elsewhere located. As I cannot believe that the Association desires to receive, or the committee to make, a partial or unreliable report on this important subject, I feel that the only thing to do is to report the situation and continue the investigation.

STATISTICS AS A MEANS OF CORRECTING CORPORATE ABUSES.

Continuing his discussion of the general subject, Professor Henry C. Adams read a paper before the American Economic Association, Washington, D. C., December 26-30, 1890, under the title of "Statistics as a Means of Correcting Corporate Abuses,"[1] in which he said:

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[1] Report of the Proceedings of the American Economic Association, at the fourth annual meeting, Washington, D. C., December 26–30, 1890, p. 73.

"Federal and State governments are accustomed to require from corporations comprehensive reports. * * * The tendency toward the increasing publicity of corporate management is a healthful tendency, and one that should meet the approval of all who fear the tyranny of irresponsible corporations on the one hand, and the tyranny of any government imposed with extended industrial functions, that can be established in the United States, on the other."

Wishing to see his presentation of the subject take definite form, Mr. Allen Ripley Foote offered the following:[1]

Resolved, First, that a committee be appointed to designate the divisions of accounts, and the items to be included in each, that should be kept by corporations performing quasi-public services.

Resolved, Second, that said division be so made that the effect of each essential economic factor will be shown, to the end that correct statistics may be obtained through a uniform method of accounting, as a basis for intelligent economic discussion and legislation."

As the time of the Association did not admit of a discussion upon these resolutions, Mr. Foote transmitted them to the members of the Association em-

[1]Report of the Proceedings of the American Economic Association, at the fourth annual meeting, Washington, D. C., December 26–28, 1890, p. 78.

bodied in a short explanatory paper, in which he said:[1]

If the economic advantages obtained by a community through the price paid for a service is to decide the policy of municipal ownership of industries, then those who advocate private ownership must accept the issue on this basis, and be ready to show that they can and will perform the same service, for the same price, that a community pays for it under municipal ownership and administration.

A condition precedent to the settlement of this question is an agreement on what constitutes cost of service under municipal ownership. It was to establish this agreement that I offered the resolutions quoted.

We must first agree on what items constitute cost, then we must see to it that these items are honestly included in all statements of cost. This done, we are in a position to take intelligent action, and may then award the contract to the municipality or to private enterprise, whichever, in the light of these facts so obtained, may appear to be to the best economic advantage for the greater number of people; those who toil and are poor.

Assuming that no economist will take issue with me regarding this fundamental basis for an agreement, I

[1] "Municipal Ownership of Industries," by Allen Ripley Foote, transmitted "To the Members of the American Economic Association," from Washington, D. C., January 2, 1891.

will advance one step further and claim, until such a basis is agreed upon and the accounts are made in accordance with its requirements, there should be a suspension of judgment and action. By adhering to this policy all parties will not only avoid the liability to get into positions from which they will have to recede when statements of cost are correctly made, but large invested interests will cease to suffer from attacks that would not be made if those who utter them were better informed.

Whose cause the truth will not serve is lost. That truth may be established, no statement of demonstrable facts should be made without an analysis of the conditions to show that the conclusion reached is correct. I look upon statistics as being as potent a means for correcting the abuse of corporations as for correcting abuse by corporations. To sustain myself in opposing the principle of governmental ownership of industries, in whatever form it may take, I invoke the same power as do those who favor that principle.

MUNICIPAL OWNERSHIP OF GAS.

Professor Edward W. Bemis, then of Vanderbilt University of Nashville, Tenn., now Professor of Political Economy in the Kansas College of Agriculture, read a paper before the Fourth Annual Meeting of the American Economic Association, Washington,

D. C., December 26-30, 1890, under the title of "Municipal Ownership of Gas in the United States." This paper was afterward greatly amplified by Professor Bemis, and published as a monograph by the association.[1]

In this monograph Professor Bemis sums up the advantages derived from the municipal ownership and operation of gas works as follows:

1. The financial benefits to the community are in the shape of cheaper gas, or more revenue to the municipality.

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2. Public ownership of natural monopolies, like gas and waterworks, whose very nature compels them, if in private hands, to be in politics, is likely to diminish political corruption.

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3. The greater inducement thereby presented to public spirited or able citizens to take a part in politics.

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4. Municipal ownership of a natural monopoly has no logical connection whatever with public entrance into competitive industry, such as cloth or bread manufacture.

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5. The argument that cities can manage gasworks

[1] Publications of the American Economic Association, Vol. VI., Nos. 4 and 5, 1891.

successfully because they have succeeded with waterworks, has been frequently made and has force.

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6. It is to be hoped that cities may be enabled to dispense with the present necessity, for revenue purposes, of charging much more than cost for gas.

Never before has the desire for accurate facts and principles in regard to city ownership of gasworks in this country been so great as now.

Nine cities in the United States now own their own gasworks.

The present decade will probably see the doubling of the number of city-owned gas plants in this country.

When this great profit in gas and the certainty that, so far from being displaced by electricity, gas is greatly helped thereby, * * * is understood, and when the real success thus far of city ownership in this country is once generally known, a rapid increase in the number of such works is sure to come.

PRICE MUST BE A REASONABLE COMPENSATION FOR SERVICES PERFORMED.

In 1892 Mr. Allen Ripley Foote wrote a discussion of the economic principles involved as an introduc-

tion to "The Law of Incorporated Companies Operating under Municipal Franchises.[1]"

In the course of this discussion it is said:

When a service is public, the price should be fixed by an authority superior to both buyer and seller, a power that can adjudicate all causes of action between them. There is one limitation upon the power of regulation. The limitation is, that price fixed shall be a reasonable compensation for the service performed. A compensation that will not cover the necessary expenses and a reasonable profit is not reasonable. Any enforced compensation that is not sufficient for these purposes is an act of robbery. The determination of a reasonable price is a judicial, not a legislative act. That it may be judicial, it must be passed upon by those who have no interest in the case, and who have access to all the facts necessary to enable them to arrive at a correct conclusion.

Under the direction and control of the State, as herein indicated, an intelligent observance of the economic law of labor and property will settle, in conformity with the requirements of justice, all the complex and variable questions that grow out of the relations and dealings between industrial corporations

[1] "The Law of Incorporated Companies Operating under Municipal Franchises." In three Volumes. Robert Clarke Co., Cincinnati, Ohio.

and the public or private users of the services they render. Under such conditions, municipalities can secure ample services for all needs at the lowest obtainable cost to users, without the investment of a single dollar collected by taxation or the assuming of a responsibility of any kind. Under the conditions specified, these services will be rendered at a less price to users than the cost of production under the ownership and management of municipal political corporations. This statement is based upon the known economic value of self-interest when intelligently utilized.

MUNICIPAL WATER WORKS.

The discussion of the advantages of municipal ownership and operation of industrial public service works was continued before the American Economic Association in 1893, by Mr. M. N. Baker, Editor of Engineering News, of New York City, in a paper under the title of "Municipal Ownership of Water Works."[1]

In this paper Mr. Baker directs attention to the fact that, on account of the number of works of both classes privately and municipally owned and operated, a study of the facts of experience in this direction will furnish satisfactory data for a correct solution of the problem. He says:

[1] Publications of the American Economic Association. Vol. VIII., No. 1, 1893.

Water works afford the best subject for the study of the municipal ownership of public works, because at the close of 1890, of 1,878 works in the United States, 806, or 48 per cent., were owned by cities, while practically all other natural monopolies have been given over to private companies.

The average rates charged private consumers by 480 companies, as shown by the "Manual of American Water Works" for 1889-90, were 43 per cent. higher than those charged by 318 cities for the same service. A large part of this difference is due to the fact that many cities charge low rates, and make up the deficiencies in cost of service by general taxation.

AN INVESTIGATION BY THE UNITED STATES DEPARTMENT OF LABOR.

The most important undertaking that has ever been entered upon to secure authoritative data regarding the relative economic advantages of private and municipal ownership and operation of water, gas and electric lighting works is now in process of development, under the auspices of the United States Department of Labor. To show how this investigation came to be undertaken, the understanding of the difficulties in the way of its complete success, the methods it is thought necessary to employ properly

to conduct it, the objects sought, and the importance with which the work is regarded, the following extracts have been made from an official report of the "Proceedings of the National Association of Officials of Bureaus of Labor Statistics in the United States." These extracts merit the careful study of every Mayor and member of a City Council, of every Governor and member of a State Legislature, and especially of every person who has occasion to write or speak upon the subject of municipal ownership of industrial, public service works.

EXTRACTS FROM PROCEEDINGS OF THE NATIONAL ASSOCIATION OFFICIALS OF BUREAUS OF LABOR STATISTICS IN THE UNITED STATES.

Twelfth Annual Convention, 1896.

Hon. Carroll D. Wright, President, Commissioner of the United States Department of Labor:

At the convention held in Minneapolis it was voted that the executive officers of this Association be authorized to invite at our next annual meeting some of the leading representatives of the economic schools of thought, at their own expense, to appear before us and give their views as to what fields of investigation the Bureaus of Labor might best exploit for the benefit of the social and economic advancement of our Ameri-

can life. In accordance with this vote of the convention, the Executive Committee, at a meeting held at Harrisburg, passed the following resolutions:

"That the Executive Committee recommend to the convention the question of investigating the municipal ownership of water, gas and electric light plants, this investigation not to be considered for or against municipal ownership, but for the purpose of ascertaining all the facts bearing upon the question."

The question before the convention for discussion, therefore, is, as stated, "How best to investigate the subject of the municipal ownership of water, gas and electric light plants," and I wish to state that unless the convention orders otherwise, the chair will rule in the course of the debate that discussion or argument for or against municipal ownership is not in order, the question being simply as to method and the practicability of making an investigation. It is for the convention to decide by its vote, after the discussion, whether it will commit itself to the investigation, and not to commit itself to the question for or against municipal ownership, this not being in the province of the convention.

Professor Walter F. Wilcox, of Cornell University:

We who are primarily interested in forces of principles are finding that to discover them, we need a

firmer grip on facts; you who are primarily interested in the facts are finding, I take it, that to bring your facts together, you need theories, or at least hypotheses.

The municipal ownership of water, gas and electric light plants is one of the most important questions now before our cities and towns, and apparently destined to attract yet more public attention in the immediate future. I can hardly think of a subject on which light is more needed by the public, and I hope the investigation projected will be taken up and carried through to a successful conclusion.

There is one phase of the subject to which the statistical method seems especially adapted, viz.: the question of the relative economy of private and municipal plants which costs the community more for the same service, a plant of a private corporation or a municipal plant? This question is hotly argued by the two sides, and the evidence of impartial experts like the labor bureaus is sorely needed. I assume that this is the main question proposed by the Executive Committee.

Society is now groping for some effective means of regulating prices and securing the best services within the field of these so-called natural monopolies.

The aim of a municipal plant is primarily to satisfy

the voters, and in subordination to that, to be self-supporting or remunerative. The aim of a private plant is primarily to earn money for the corporation and in subordination to that, to please the patrons. Hence the management of a municipal plant is tempted to make it appear that the plant is remunerative, by twisting the figures if necessary, and at the same time be lavish with the light, as a means of securing the favor of the voters. On the other hand, the management of a private plant is tempted to keep its financial condition secure, or to represent it unfavorably to the public, in order to prevent competition or municipal interference. Hence, I believe that in a large proportion of instances the facts will be difficult or impossible to ascertain.

Finally, and this seems to me the gravest difficulty, is it true that cities on the one hand, or private companies on the other, keep their accounts by any approximately common method? Is it not true, on the contrary, that they differ from one another much more widely than the Bureaus of Statistics of Labor do in their accounts, as indicated in the reports of yesterday, and when in addition to these differences you have the desire to conceal or mislead, will it be possible, even with expert help, to unravel the facts and present them in a form admitting comparisons?

The second point I am asked to consider is the methods to be employed. Now, it is a statistical commonplace with which you are all familiar, that the success of any investigation is largely dependent upon the knowledge and care with which it is planned. The plan cannot be made at once, or in a few days. It cannot be handed to you by anyone outside your offices. You, yourselves, must formulate it after long and careful considerations of all the conditions.

On this subject a few suggestions may be made. The three topics should, I believe, be kept sharply distinguished in your investigations. I should prefer even to see three investigations rather than one, provided such a method is equally practicable from the administration side. My reasons are that the technology of the three subjects is so different that different experts would be needed, and also that the arguments regarding municipal ownership are extremely different in the various cases.

In attempting to fix cost of producing a standard gas or electric street light (and what such a standard light is would call for definition), it must be remembered that the cost varies not merely with the cost of the materials, but also with the number of lights, and so the cost of distribution, with the manner in which

the lights are put up, with the length of the contract entered into by the City, and with the other forms of municipal or private service made possible by the contract.

The influence of municipal ownership of gas and electric lighting plants upon the price of light and power to consumers must be carefully investigated. The corporate interest of the municipality cannot be so separated from the sum of the individual interests of its citizens, as that an arrangement which secures cheap and good services to the municipality, but entails dear or poor service to the citizens is to be desired. The income from gas companies from municipal lighting is on the average perhaps about one-sixth of their total income from lights. It should be ascertained whether municipality owned gasworks render this service to citizens as cheaply and well as private companies do.

The condition at the present time is of less importance than the changes now in progress. Municipally owned waterworks now have a history in this country, and it might be profitable to investigate that history, to ascertain when waterworks were introduced in each municipality, what changes in the form of ownership or administration have been introduced, and what were the causes of such changes. A similar

investigation into the various forms of public control or supervision of gas and electric lighting plants would also be of much value to students of the subject.

It is possible that specialists in one or another of these fields might aid you in your work, by contributing notes or suggestions, or answering questions that arise in the course of your investigations. * * * Of course the teachers of economics are not experts in any of these fields and this suggestion is not made in their behalf.

In electric lighting plants you may frequently find both water power and coal employed, the latter to supplement the former. To separate these two sources of power will be difficult and yet necessary to the completeness of the investigation.

It is often alleged that the condition of laborers employed by a municipality is better in many ways than the condition of laborers employed by a private corporation to render the same services. This claim has been of weight in favor of the recent considerable extension of municipal functions abroad. On the other hand, it is asserted that even if the wages, the hours of labor, and the conditions of the employed are more attractive, the tenure of position is much less

secure. Your investigation should not overlook these conditions.

In conclusion, I may venture to say that even if your results should prove to be mainly negative, they will be found of value. It is certainly highly desirable that the community should know what system produces the best results, and if you should find, as you may, that no definite answer to the question can be obtained, this fact would stimulate the demand for more uniform bookkeeping by the cities and by private companies holding quasi-public franchises and might lead to legislation upon the subject.

Professor Edward W. Bemis, formerly of Vanderbilt University of Nashville, Tenn., then of the University of Chicago, and now Professor of Political Economy in the Kansas College of Agriculture:

The investigation is most germane to the work of your bureaus, since the wage-workers, in whose interest you are especially working, are most deeply concerned in cheapening these necessaries of life, and equally concerned in securing such a relation to them on the part of our municipalities as will best develop civic pride and good government. Both results are likely to follow a wide dissemination of the actual facts on this much discussed subject. Further, it is only, I

covered by any existing indebtedness. It might be well to present the figures both ways, but if a choice must be made there seems no sufficient reason for including interest on such portion of the plant as has been paid for out of net earnings.

Depreciation.—A greater difficulty is a proper allowance for depreciation. Provided a plant is kept in good repair and a considerable sum, say five per cent. of the value of plant in the case of electric light and gas, and perhaps three in the case of water, is yearly spent on extensions and reckoned as part of the running expenses, there is usually no need of further allowance for depreciation. It must be borne in mind, however, that while a private company must yearly collect a depreciation fund, a public plant belonging to the taxpayer may let this rest in the hands of the consumers, where it can be put to more profitable use until such time as it may be needed, when it can be raised by taxation.

With regard to electric lights, investigation will prove more difficult, because the youth of the industry causes uncertainty on some items of depreciation and cost, but there are about two hundred cities that own electric light plants, and from these, with some effort, can be secured valuable data.

When Dunkirk, N. Y., several years ago, constructed a public electric light plant, she only had to add $10 a month to the wages of the firemen and engineers previously employed at the water plant, and now employed on both plants. Although it may be fair to apportion to the lighting plant such proportion of the wages of firemen and engineers as is the proportion of labor used on the electric plant, yet it is necessary to a fair judgment of such consolidated plants that all the facts be clearly stated.

In closing let us urge you not to undertake this investigation in your respective States unless able to give to the work the services of an unbiased investigator, not necessarily nor even preferably an engineer, but one familiar with the subject in hand, and who can be given the means to visit the typical plants selected for study.

Mr. M. N. Baker, Editor Engineering News, New York:

The first object to be attained by the operation of water and lighting plants is efficient service, and, second, minimum cost to private and public consumers.

Quality is of the greatest importance, by far. It is to be considered, first, in relation to health, and, sec-

ond, as to the fitness of water for household and manufacturing purposes. Quantity has heretofore been given much more attention than quality, so much so as to even encourage wastefulness. The amount actually needed depends on the number, character and occupation of the population, while local conditions materially affect the amount available at reasonable cost. Pressure is more easily governed than quality or quantity. It is of great importance for adequate fire protection, but no rash conclusions should be drawn where a low pressure is found, for reliance is often placed on fire steamers. Pressure is also an element in the case of individual consumers, where a low pressure may fail to deliver water to the required elevation and thus yield but a dribbling stream from house faucets.

Cost of service is to be considered from both the private and public standpoint. How much the householders, the merchants and the manufacturers pay for water for their own use; how heavy is the expense upon the taxpayers for water consumed by the city. Are the rates for public and private service so adjusted in relation to each other and the total cost of the service as to bring an undue burden upon either water consumer or taxpayer, while the burden of the other class is proportionately lightened. This is a grave danger in the case of these and other similar undertakings.

Cost is in many respects the most difficult element in your proposed investigation. The vagaries of bookkeeping, both municipal and private, and the natural desire of private corporations to keep their financial affairs to themselves, are the first difficulties which occur to me. Next are the great divergencies in local conditions, natural and artificial, which make intelligent comparisons almost impossible. Obviously, it is not reasonable to say that because water, for instance, costs $5 per unit here and $7 there, the former place has the most efficient works. With the best possible engineering, skill and management, it may cost twice as much to supply water, gas or electricity in one town as in another. Moreover, the investigator will speedily find that unit cost is often impossible of ascertainment, through lack of records or unreliability when records do exist. Mere schedules of water rates should be compared most continuously. They are formulated on widely different plans, and often are not based on the actual consumption, but on the mere number of fixtures supplied. A high rate per fixture may be accompanied by so great a use and waste as to make the unit cost much less than at other places having a low rate per fixture. Besides this, local conditions must also be considered as affecting fixture rates as well as cost units, and of great importance, low rates are sometimes made possible in

the case of municipally-owned works by having recourse to the general tax levy to make up any deficiency in revenue. On the other hand, municipal works sometimes put the whole burden of their support upon private consumers, entirely relieving the taxpayer who is not a consumer of public water or light from expenses for the provision of fire protection to his own property, or the lighting of the streets in front of his own house or store.

Much time and thought are necessary for the evolution of the details and forms of inquiry blanks. I shall only say, and that I urge as of the greatest importance, that the final scope of your inquiries, and also their minutest details, should be determined by those who have had experience in such work, and that an attempt be made to harmonize the character of the three proposed lines of investigation.

I can say that the country is being flooded with all sorts of inquiries relating to the undertakings in question, and that disappointment is in store for the investigator who expects to receive replies from more than 25 to 30 per cent. of the inquiries which he sends out.

I would suggest for consideration: * * * Is it not a more proper field of inquiry for the United States

Department of Labor, especially as some States doubtless lack organizations to conduct the work, while not all organizations in existence could or would take up such an investigation? Should not the information secured, however obtained, be compiled, or edited and discussed, by some central body, in order to bring out the salient facts for the whole country in proper relation to each other?

Mr. Osborne Howes, Editor of The Boston Herald, Boston, Mass.:

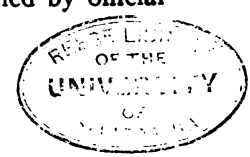
In considering the question of investigating the municipal ownership of water, gas and electric light plants, the first question to be asked is, How do these services conform to the conditions which should govern public ownership and control? In other words, are these services of a class which should on general principles be public services, and if so, why? * * * The test, so far as I have been able to examine the question, the only test to be applied is the test of monopoly. If control by means of monopoly is advantageous, then, other things being equal, public ownership and control is desirable.

I think I am justified by experience in saying, that while the cost of constructing or maintaining small civic enterprises, or those which in their daily opera-

tion call for the employment of a large number of men, is considerably greater under public than under private corporate control, this adverse difference is not found to exist in the case of large engineering enterprises, especially those in which the work of construction is given out by contract.

There is in the investigation of public ownership of water plants one possible source of error to be guarded against—and this doubtless holds true of gas and electric plants—that is, the disposition of municipal authorities to understate the cost of construction. An instance of this is found in our Boston experience. In the year 1878, about thirty years after the commencement of the Cochituate waterworks, a report was prepared by the city auditor giving the cost of the undertaking up to date. It was therein stated that the net cost of construction, including various additions, was $13,471,812.41. As the city was at that time receiving an annual revenue from the sale of water of approximately $950,000, the inference to be drawn was that as a financial investment the works were a decided success. But having occasion at about that time to go through the municipal expenses in detail, I found that the result given above was not arrived at on the basis upon which an ordinary business investment would be figured. In other words, if the receipts of

each year were deducted from the expenditures of all kinds, and an annual interest charge was computed on the sum left, instead of thirteen and a half million dollars ($13,500,000), the cost would be found to be more than forty million dollars ($40,000,000). I found that during a series of years large appropriations were made out of the annual tax levy, to make good deficiencies in income and to pay for new construction, which apparently were ignored in the accounts, and against which no interest charge was made, as would have been the case if a corporation had raised the money and spent it for a similar purpose. It was not on the part of the city auditor an attempt to deceive, but simply an error growing out of the manner in which a city official is inclined to look upon a municipal undertaking. I would not have it inferred from this that I consider the waterworks owned by the city of Boston as an undesirable undertaking. On the contrary, I think that they are worth to the city, in the advantages afforded, to say nothing about the appreciation in the value of land acquired, all that they have cost the people. But the difference in estimates of expenses that I have pointed out, in a work when the conditions are as simple as they are in procuring and maintaining a water supply, indicate the great care that has to be taken not to be misled by official



the operation of these industries, they must not be conducted as private corporations would be, with the idea of balancing cost and receipts and getting a net result; but the municipality takes them up as the representative of all the consumers, the homes, the families of the people. So there is a very vital difference, and that difference must be worked out by directing the investigation along fruitful lines. It would have a bearing on the question of interest and of taxes. For example, I found in Indiana a number of small cities and towns which have recently put in municipal waterworks, and they have from the first adopted the policy of paying the interest and sinking fund out of the taxes of the community, and allowing the receipts from the consumers to meet only the running and operating expenses, paying fixed charges out of the taxes. They seem to take that as a matter of course. Unconsciously, without any elaboration of theories, they had adopted the principle that a waterworks plant is an agency of the consumers, the working people, not the property owners, but all the people of the community, to furnish a vital necessity. That is the reason why, as a city increases in size, it becomes necessary for the municipality to take over the waterworks plant. * * * So the question of taxes and the question of interest must be looked upon from that standpoint. I am not prepared to say that I know

just what direct bearing that would have on your investigation, but this I do say, that your statistical investigations ought to bring out those facts which would enable us theorists to reach some conclusion on this very important subject.

There is first the question of consumption and the extension of mains. * * * For example, in Syracuse, when the municipal plant was acquired, they immediately extended the mains into all outlying suburban districts, placing them in all localities where the people had formerly depended upon wells and cisterns, and that has brought about certain results outside of what I suppose is the legitimate scope of your inquiry, namely, the effect of an undertaking of that kind upon values of property in the municipality, of land values in the suburbs, and the effect upon the building of houses. It has greatly stimulated the building of houses and it has influenced the rates of insurance, and this latter point, the rates of insurance before and after municipal ownership, a comparison of rates of insurance in different localities under these conditions is of great importance, and it seems to me should be considered by you.

As to methods of investigation, I believe Professor Bemis is perfectly right in saying that it requires a

personal investigation of each plant. * * * I believe there is but one State where it would be possible to secure any practical results of electric lighting under private management, and that is Massachusetts; and that by virtue only of the fact that Massachusetts has a Commission which is already legally empowered to secure the information from electric lighting companies; but even then the electric lighting plants under municipal control have not been in operation long enough to furnish good results.

Hon. F. E. Barker, Chairman of the Board of Gas and Electric Light Commissioners of Massachusetts:

Having for ten years had to do with the gathering of statistics relating to gas and electric lighting companies, the dissemination of information about them and the burden of governmental regulation of them, I cannot help thinking that such an investigation as you are now considering would be likely to present serious difficulties. I am confident, however, that such an inquiry, intelligently and successfully prosecuted, would prove of substantial public advantage. Few, if any subjects of equal importance, seem to me so lacking in reliable and detailed data. This is due, I believe, in part to the fact that even the parties engaged in the business do not themselves possess the necessary material. * * * A uniform system of ac-

counts is of the highest importance in statistical work, and it may be doubted whether reliable statistics are possible without it. We have succeeded in a great measure in securing this among the gas companies of Massachusetts, and while I know that many companies outside of our own State have adopted our system of accounts, there is yet, according to my own observation, great lack of uniformity, not only throughout the country at large, but within the limits of a single State. A fact that the business has come to be much less profitable than formerly has imposed upon the managers a desire to compare among themselves reliable data and to this end to seek uniformity of accounts and records, so that the present tendency is strongly in that direction.

The fact that without legislation in your respective states to assist you the information from private corporations must be entirely voluntary may prove a serious difficulty even when the managers possess accounts and reliable data. The conditions of their business and the welfare of their companies may seem to them to make it inexpedient or against their interests to publicly exhibit the information. * * * I have found managers, especially in large cities, reluctant to disclose even the annual output of their companies. The reason for this, of course, is found in the natural

reluctance of business men to exhibit their private affairs, and in the fear that any information may be used to the injury of their corporation, either in the encouragement of a rival enterprise or in some of their other relations with the municipality. The Massachusetts law which compels companies to exhibit exhaustive data seems to recognize that the fear has some foundation, because it couples with the power to collect data the power to protect a company against unreasonable exactions by the municipality and to preserve its territory against the inroads of rival concerns if the boards to which the information is given deems such a course to be in harmony with the public interest.

If an attempt be made to collect information respecting the electric lighting business, one difficulty peculiar to that, I think, will be the failure of the managers to utilize in their records and accounts any common standard or unit. The English Board of Trade some years ago established as a unit for the measurement of electrical output the kilowatt of energy or the kilowatt hour, but the use of this although the best then known, according to my observation, has not been generally adopted in this country. Indeed, I am of the opinion that very few electric lighting companies make an attempt to determine the quantity of their output except

as measured by the dollars which they receive. The gas companies have their unit in the thousand feet of gas, the whole management of the business revolves around that unit, and in well managed works a comparative record of the make and output is kept. Such methods, however, have rarely been adopted by the electric lighting companies. Even in our own state we have been unable to secure the keeping of such records by the electric lighting companies over which we have supervision and we have only just succeeded, after three years of effort, in securing legislative authority to compel such records to be kept, the effort for such authority having been opposed by the companies, who feared it might be against their interests.

Although the unit of output and manufacture in the gas business is well understood and generally adopted throughout the country, other units, such as the ton of coal, the chaldron of coke and the barrel of tar, differ widely in different localities. The ton of coal might seem to be a term of precision, but it varies in different works by nearly twelve per cent., some making the short ton, others the long ton, while in some of the Central and Western States the companies do not reckon coal by the ton at all, but by the bushel. I have found engineers unable to answer inquiry as to how many of their bushels it would take to make a ton; the question is new to them.

I think too much stress cannot be laid upon the importance of having this information gathered, if it be gathered at all, by persons who are familiar with the business to be investigated, or at least that the bureau under whose immediate supervision the information is gathered may have the active assistance of such persons.

No collection of data would be complete without some attention to the matter of depreciation and the consideration of what is a proper charge for this item. It is certainly a part of the cost of operation as much as either coal or labor, but it is one that is often overlooked, not only by the municipal authorities, but by the companies, and is one about which engineers and managers have only limited data and widely differing opinions. Depreciation should not only account for the actual deterioration of the apparatus due to its use, but should include the reduction in the market price of apparatus, and the loss upon apparatus which becomes commercially useless through the progress of the art, as well as those appliances which may become valueless, not because they are worn out or out of date, but because the growth of the business in that particular locality makes it no longer economical to use them, and, although in condition to do the work for which they were

originally designed, nevertheless become practically useless through the necessity for a reconstruction or rearrangement of the works to meet new conditions. Charges for depreciation by different managers will usually depend upon their view of the relative importance of these items, and upon the degree of profit which the business brings.

Mr. John S. Clark, Treasurer of the American Statistical Association:

While I am not particularly conversant with the details of your subject, it is one that interests me profoundly, particularly in its broad relation to social well-being. * * * The time has been when the minority of the people lived in towns (small towns at that), and the majority under rural conditions. The case is rapidly becoming reversed. We cannot much longer look to genuine country life for the nation's vigor. It behooves us to watch and work for the improvement of urban conditions; to make city life itself thoroughly wholesome and healthy, if we want to keep a sound physical basis for the national life. This question of water supply and illumination has a great influence on the physical health which underlies mental and moral vigor in our great municipalities. * * *

The great question before you, as to how municipalities can best be supplied with these necessities and at the cheapest cost, is one in which we are all intensly interested. I do not suppose that if it can be shown that they can be supplied more cheaply and economically through private enterprise than under the direction of the municipalities there would be anybody disposed to question that line of policy. What you want, and what we all want, is to get the best service at a reasonable cost.

Hon. Carroll D. Wright, Commissioner of the United States Department of Labor, and President of the convention:

The unfinished business is the discussion of the expediency of undertaking an investigation relating to the municipal ownership of water, gas and electric light plants. You are familiar with the action of the Executive Committee, in which they recommended to the Convention the question of investigating this subject, the investigation not to be considered for or against municipal ownership, but for the purpose of ascertaining all facts bearing upon the question. The matter was referred to the Committee on Resolutions yesterday for action, and if that committee is ready to make a report, that would bring the question formally before the Convention for discussion.

Mr. Horne (S. B. Horne), Commissioner of the Bureau of Labor, State of Illinois:

The Committee on Resolutions, of which Commissioner Waldin (Horace G. Wadlin, Commissioner of the Bureau of Labor, State of Massachusetts), is Chairman, has prepared a resolution in response to the action of the Convention yesterday, and in the absence of Mr. Waldin, the duty of presenting that resolution devolved upon me. The resolution is as follows:

Resolved, That it is expedient for the officers represented in this Association to undertake an investigation of the private and municipal ownership of water, gas and electric light plants substantially as recommended by the Executive Committee, and that for the purpose of determining the methods and limits of such an investigation and the preparation of blanks to be used therefor, the matter is referred to a committee consisting of the President (Hon. Carroll D. Wright), of this Association, and two others to be appointed by him, which committee shall report its conclusions and recommendations to the various bureaus of correspondence.

The President, Hon. Carroll D. Wright:

You have heard the resolution reported by the committee. The adoption of this resolution commits the Convention to the investigation as recommended

by the Executive Committee and leaves the preparation of blanks and the arrangement of details to a special committee, consisting of the President of the Association and two members thereof. The question is upon the adoption of the resolution.

Mr. Meriwether (Lee Meriwether), Commissioner of the Bureau of Labor, State of Missouri:

I thoroughly believe in the importance of investigating the subject of such municipal franchises as street railways, water works, gas works, etc., but I do not see in what way these investigations can be conducted with special reference to the question of municipal ownership of such corporations.

Yesterday, Professor Bemis alluded to certain errors made by private investigators who had failed to take into account the cost of coal in determining the question as to whether or not municipal ownership was desirable. Such errors as these seem to me small compared with other difficulties that present themselves. Investigation may show that in the case of one city that public construction and operation of a water works or a street railway may be less than private construction and operation, but, after all, this will not throw much light on the question whether or not it would be cheaper in any other city; nor whether it would be cheaper for another city to build water

works and street railways rather than to permit private corporations to build them. This for the reason, that political conditions in one city may be very different from the political conditions in any other. The patriotic interest displayed by the citizens of one city may be so great that public operations of street railways, etc., may prove a great success. On the other hand, patriotic sentiment in another city may be so lacking that the affairs of that city may be largely in the control of what may be called "freebooting" element, and public ownership of street railways in such cities may mean the enrichment of corrupt city politicians at the expense of the rest of the citizens.

In his valuable work on municipal government, Dr. Albert Shaw described the great success which has attended the municipal ownership of street railways in Glasgow, Scotland. The result of the investigation of this subject by our labor bureaus may show a number of instances in the United States where municipal ownership of water works, etc., has proved an advantage to the public, but after all this has been done, it seems to me it would be erroneous to conclude, because Glasgow and certain other cities had found the experiment to be successful, that therefore, it would be successful in any city that might care to adopt it.

It does not require investigation to prove that what a private corporation can successfully accomplish can also be accomplished by a municipal corporation, providing the municipal corporation is composed of men of integrity and business ability, willing to devote their talents to the public cause, this much needs no proving, and the rest—as to whether a city's civic sentiment is sufficiently aroused to investigate business management of city affairs—can hardly be demonstrated by the statistical method. In Missouri, we have already taken up the question of street railway franchises, and while the information obtained may prove of value in showing what these corporations receive from the public, and what in return the public receive from them, and what the public might with reason demand from them; still, I do not think anything we have done, or could have done, will throw much light on the question whether St. Louis will do well to take charge of these corporations and operate them; that point cannot be determined until we can ascertain the extent which earnest and patriotic citizens take an interest in the government of the city.

It can be said without fear of contradiction that in any city where a private corporation operates gas or water works successfully, the municipal government could run these same works with equal success, provided the municipal government is composed of the right class of citizens.

I am frank to say that in my own city of St. Louis the better class of citizens have not taken that interest in city government which would lead me to hope for the wisest or most economical operations of street railways were the city to undertake their management; to such an extent has the city government been turned over to self-seeking politicians it has proved impossible to prevent the House of Delegates and Council of St. Louis from giving away to private corporations franchises which might easily have been sold for millions of dollars had our city fathers been half as solicitous for the welfare of the public as they were for their own welfare.

I am heartily in favor of the investigation and will do all I can to forward it; because the more the public knows about these franchises and semi-public corporations the better it will be; but as I understand the situation I cannot see much ground for hoping that the present investigation will materially aid in solving the question whether it would be an advantage or disadvantage for municipalities to own this class of corporations.

The President, Hon. Carroll D. Wright, from the floor (Mr. Lee Meriwether, Commissioner of the Bureau of Labor for the State of Missouri, having been called to the chair):

I will state to the Convention that the Executive Committee, in seeking some line of inquiry which could be taken up by the bureaus at large, hit upon this topic of municipal ownership.

The question of municipal ownership of gas, water and electric light works seemed to the Executive Committee to furnish the basis of an investigation which could be entered upon by all the bureaus at the same time and upon uniform blanks to be used by each and every one of the Commissioners, provided the Convention should see fit to take up the investigation at all. The theory of statistics which actuated the committee was not whether municipal ownership was desirable, but whether any investigation could be instituted which would enable municipalities and the citizens thereof to determine whether there was any advantage to the consumers in such ownership, or whether, on acount of the cost, they should continue in the old way.

It is one of the most difficult undertakings upon which we could enter, and so far as my own view of the case is concerned, I am free to say that if we go no further than to print the papers and remarks of yesterday we should do a great public service.

The question of municipal ownership of gas and

electric light plants and water works is no longer a question even of municipal socialism; it is purely a question of business. If one community finds that another neighboring community can supply its inhabitants with electric light or gas light or water at a less rate than a like community operating under some other method can perform the same service, then that information of itself is sufficient to stimulate an investigation of the facts underlying the business operations of these corporations. So, if the Convention should see fit to take up this investigation, we can ascertain at least some of the more easily obtainable information, if not the more difficult. I believe furthermore, from my experience in conducting investigations into the cost of production, a most difficult thing to do, that we shall find a sufficient number of concerns that will give us concrete, representative information. We must not expect to get information from each and every one of the private corporations now engaged in these business enterprises, but we will get here and there crucial information which will be beneficial in forming a fairly accurate conclusion. That much we can do, no matter what the difficulties are, we can get the cost of supplying electric light, gas and water by the municipal concerns, and we can get the price which the constituents of these concerns have to pay for these commodities; whether we can get the cost and the

price of these commodities as furnished by private corporations is a more difficult question, but we certainly can get the price to the consumer. We do not have to depend upon the good will of the managers of a private gas works to get the price of gas to the consumer; that can be obtained independently of any courtesy on the part of the management. I believe that here and there, as I have said, the management will give us the cost of gas in the receiver, and by units which shall be fairly representative of conditions in every community. If we can do this, even in a partial way, we shall be contributing to the intelligent discussion of the whole question of municipal ownership. We can, without any difficulty, ascertain the extent to which municipal ownership has thus far been carried. There can be no opposition strong enough to prevent that. There can be no antagonism either on the part of municipalities or of private corporations that will prevent us from securing accurate information as to the extent to which municipal ownership has already been carried, and if we accomplish nothing else, that information alone will be worth all the efforts we may make as the result of our deliberations here to-day. I hope, therefore, notwithstanding all the difficulties and obstacles that face us in the consideration of this investigation, that the resolution may be adopted, and it is just and fair to you to state, here and now, before you

vote upon the question, just what you can depend upon so far as the United States Department of Labor is concerned. Should this resolution which has been reported by the Committee on Resolutions be adopted, and the committee raised under it can frame form blanks, which I confess is one of the most difficult features of the whole business, but if the resolution is adopted and the committee is able to frame uniform blanks which will enable us to conduct an investigation on a scientific basis all over the United States, the department which I represent will take up those states which have no bureau, thus completing the whole chain; and furthermore, should any one of the bureaus represented by a Commissioner of Labor not be in a condition to enter upon the investigation at the time the others decide to begin it, we will take that state, so that, with those states which have bureaus of labor and which enter upon the investigation, and the work which the Department of Labor at Washington will do, we will have an investigation which will cover every one of the states and territories of the United States, thus giving to the public a complete statement of the extent to which municipal ownership has been carried in this country.

Furthermore, if this resolution should be adopted, and, if any one of the Commissioners should so desire,

or all of them, it had better be all, we will undertake to tabulate the results for each state and furnish each bureau with that complete tabulation, not only for the state involved, but for all other states, so that each commissioner can have all the facts for the whole country in tabulated form. Furthermore, should any bureau that undertakes to carry on this investigation find that it needs more assistance than its own appropriation will warrant, I will see that its force is supplemented from Washington.

Now, this investigation, should the resolution be adopted, may be an abject failure; but I assure you, that there is a great deal of success sometimes in failures. If this body, representing thirty-three or thirty-four States of the Union, cannot make a success of an investigation entered upon with earnestness and with sincerity on this line of subjects, then the question of municipal ownership will have to take a new lease, and there will have to be something else besides information and positive data upon which to form conclusions, and it will have become then a political issue without the facts, as so many issues are at the present time. It is our duty to our constituents everywhere, it seems to me, to see to it that they may be informed on this great question which is being agitated more and more every year, and inform with all the accuracy that it is possible to put into the information. If we fail,

any body of men would fail. Again, there is another consideration, which is not a public one, but which touches us individually and officially, and that is, that every man in the United States, whether he believes in municipal ownership or whether he opposes it, will welcome this investigation in the warmest way. Business men have said to me, "I hope your convention will undertake this investigation, because we know nothing about the subject; we do not know how far it has gone, we believe it is a business matter, after all, and we want to be informed upon it." But beyond the satisfaction of giving not only the friends, but the opponents of municipal ownership the facts, so that each side can shape its conclusions according to them, it is one of the very best things this convention can do for its own welfare, for no other single investigation which I can call to mind will so thoroughly solidify the interests of all the bureaus of labor statistics in the country and so thoroughly bring them to the notice of the citizens of the United States as being united in a great public work. So, from every consideration, the public interest, the interest of our respective offices, the interest of this convention, it seems to me that we ought to adopt the resolution which has been reported by the committee.

(The President, Hon. Carroll D. Wright, resumed the chair.)

Mr. John T. McDonough, Commissioner of the Bureau of Labor for the State of New York:

After listening to the very clear and concise statement of the President, it seems to me that the members of the convention must thoroughly understand the question, and as time is precious, I move that the resolution be adopted.

Mr. George A Schilling, Commissioner of the Bureau of Labor for the State of Indiana:

I merely wish to remark that the only disappointment I felt yesterday morning, in listening to the papers presented on the subject, came from the fact that it was simply a question between the present private, monopolistic control and municipal control, in the sense in which we commonly understand these terms—that is whether or not the community should own and operate its own plant. There was nothing said yesterday or even this morning in regard to the Detroit or Toronto method, and it seems to me that it is very important that we should give that attention.

The President: I think that would legitimately form a part of the investigation.

Mr. Schilling: I really think that should be made a part of the investigation. I believe that you will

find that most private corporations depending for their existence upon franchises pay larger dividends, especially in large cities, than are received in other lines of enterprises. That fact alone convinces the average man who pays any attention to the matter that something is wrong somewhere; furthermore it will be found that the people who make these investments can afford to pay large bribes for their franchises, and that they periodically come together, and by a purely arbitrary rule determine what those franchises are worth for the coming year, and then issue and sell stock to cover the increased valuation. The other side of that is municipal ownership and control, where we see confronted with the other evil, frequently mentioned, that these institutions become the home of all political heelers—the incompetent men who in other walks in life have demonstrated their inability to carry on the struggle for existence—where every politician who has any influence can unload some of his friends. So we are confronted with those two phases of the subject, both offering very serious obstacles. Upon the one side the people are plundered; upon the other they provide, as it were, a stamping ground for all the incompetent people of the community, and the payrolls are burdened down with more people than are necessary to carry on the work. Now it seems to me that a middle ground, under such circumstances, is a

very proper thing to consider. * * * There remains, of course, the question whether it is better that the city should receive an annual bonus from the corporation for the privilege of operating the franchise, or whether the cost of service should be reduced to the lowest possible point, leaving the bonus in the pockets of the citizens individually?

After some further discussion the resolution, as submitted by the Committee on Resolutions, was unanimously adopted, and the President selected Mr. Lee Meriwether, Commissioner of the Bureau of Labor for the State of Missouri, and Mr. Horace G. Waldin, Commissioner of the Bureau of Labor for the State of Massachusetts, to serve with him on the committee created by this resolution.

THE GREAT PUBLIC VALUE OF THIS INVESTIGATION.

In nearly every city and town throughout the United States there is an association of some kind organized for the special purpose of securing a correction of real or imaginary abuses by city councils and corporations, of the franchise privileges which accrue to the municipality by virtue of its incorporation as a city or town. The method of correction almost universally accepted as being correct public policy is to drive private cor-

porations out of the business of owning and operating industrial public services, and to undertake these industries for the account of all the people, through municipal ownership and operation. This policy is advocated by a very large number of professors of political economy; by nearly all active municipal government reformers; by writers and speakers of every degree of intelligence, by some five thousand daily, weekly, monthly or quarterly publications, and it is a part of the creed of several important politicial parties. In view of the great benefits proclaimed broadly, by all of these sources of opinion, to be derived from the municipal ownership and operation of all public service industries, no single investigation can be undertaken that will satisfy as widespread and earnest a demand for information as will the investigation of water, gas and electric lighting works, now in process of development. If the interests of all the people can be served by municipal ownership and operation to the extent claimed, it is time that the facts of experience were put into shape to substantiate the claim. No party can afford to make the policy of the municipal ownership and operation of public service industries a political issue without the facts.

Association for the Public Control of Franchises

54 William Street, New York.

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PLATFORM.

"Inalienable Rights of the City to Its Property."

"*Sec. 71.—The rights of the city in and to its water front, ferries, wharf property, land under water, public landings, wharves, docks, streets, avenues, parks and other public places, are hereby declared inalienable.*"—Franchises, Title 1, Chap. 3, CHARTER FOR THE GREATER NEW YORK.

1.—All franchises which depend upon exclusive rights in public property should be granted only for public purposes and for limited periods, and should be made to contribute from their value, created by the community, their full share of public expenses, thus relieving personal property, buildings and other improvements from the increasing burden of taxes.

2.—Monopoly, the result of special privilege, rather than Capital or Production, which are the creation of individual effort, should be the primary source of public revenue.

3.—The government must control natural monopolies (those public services which, from their nature, do not admit of competition), otherwise these monopolies will control the government.

4—Such public services as are not natural monopolies should be preserved to free and open competition,

---

DEAR SIR: NEW YORK CITY, July 17, 1897.

According to the most conservative authorities, half the city's revenues could be derived from its street-car, gas and other franchises. In this event, taxes upon private and personal property would be cut in two.

What is even more important to the mass of our citizens, public control of the means of transportation and illumination will lead to a similar reduction in car fares and gas bills.

The Association for the Public Control of Franchises has been organized by citizens of Greater New York, not only to initiate legislation looking to the above ends, but also to watch vigilantly over the city's rights under present laws, and to assist the city administration under the new charter in the enforcement of its excellent provisions regarding franchises.

Like similar organizations, such as the Tax Reform Association and the City Improvement Society, our Association must rely for support upon those who have means to contribute as well as property to defend. The laboring classes, to whom cheaper and more efficient transportation, light and fuel are boons immeasurably beyond the gift of charity, require only the guidance of an efficient organization, such as, with the co-operation of yourself and others like you, our Association can become, to adopt, through their votes, the sound economic solution which our platform presents.

If you endorse our principles, kindly give material testimony to your belief by inclosing us a check of proportions relative to the importance of our cause among those which already appeal to your sympathies.

Yours very sincerely, M. M. MILLER,
For the Committee on Finance.

The following extracts are taken from a paper by Edward M. Grout, under the title of "New York should Own the Gas Supply."[1]

In its last analysis, the proposition that the city of New York should own and operate the gas supply system for its streets, and for its inhabitants, is purely a business proposition.

Expediency, that is, the question whether or not the city can do better for itself and for its inhabitants than can private enterprise, is, in truth, now the final inquiry, the controlling consideration, even with those who apparently have been devoted to the arguments against power and right.

If only one gas company or trust, with one set of mains, works and offices, be needed, then capital was (is) wasted, when temporary and false, or forced and unnatural competition led (leads) to the organization of a number of companies; and the wasted capital, and perpetual dividends upon it, will, if possible, be recouped from the public. * * * No school of political economy will maintain that monopoly should not be regulated and restrained, and legislation here and elsewhere has long, though imperfectly, recognized the monopolistic character of street lighting, and has made at least a pretense of regulation by law.

[1] Municipal Affairs, June, 1897, Reform Club, New York.

The situations of these cities are too diverse, the savings to the public are too great, to enable us to explain away these results by any differences in the prices of labor or coal. The results are due chiefly to the fact that cities can borrow money about three per cent. cheaper than private corporations, and to the additional fact that cities do not attempt to water the capital employed, nor to pay dividends upon fictitious capital or capital which has been used up and consumed a generation ago, and which ought to have been long ago charged off to depreciation.

The question is not one for property owners and taxpayers alone. It touches the pocket of every gas user to the extent of from twenty to forty per cent. of his gas bills. It reaches every inhabitant of the city who is now, for economy's sake, compelled to use oil lamps, and who would be more comfortable, happier and healthier if gas were cheap enough for him to use. And cheap gas could be used for fuel, to the saving and to the untold comfort of the dwellers in New York's crowded apartments and tenements, for it has been the experience of Glasgow that in this direction its municipal management was able to cause a doubling of the consumption of gas. It is a question which concerns every taxpayer, every voter and every inhabitant of the city.

In his "Rejoinder"[1] to a reply to his paper, Mr. Grout says:

In reckoning cost under municipal ownership, Professor Parsons has in each case added to actual expenditures a carefully estimated percentage to cover interest on investment, taxes, insurance and depreciation.[2]

No plaint of inefficient public bookkeeping, of unfair, inadequate or unreliable statistics, could come from the mouth of anyone who has ever examined the reports of those (British) cities. * * * Interest on investment, taxes, insurance, depreciation, repairs and betterments, all operating expenses (including good wages and salaries), a sinking fund and a reserve fund, all are charged before net profits are reckoned.

A CORRECT SOLUTION OF THE PROBLEM.

Following are extracts from a discussion of the economic principles involved in "The Law of Incorporated Companies Operating Under Municipal Franchises":[3]

The greater always controls the lesser interest. The Nation controls the State. The State controls the municipality. The municipality controls the citizen.

[1] "A Rejoinder," *Municipal Affairs*, June, 1897. Reform Club, New York.

[2] "The People's Lamps," by Professor Frank Parsons, *Arena*, June, September, November and December, 1895.

[3] "The Law of Incorporated Companies Operating Under Municipal Franchises." Robert Clarke Co., Cincinnati, Ohio.

The greater an interest is, the greater is the intelligence and executive ability required of its administration. An army is poorly officered whose officers are not more intelligent than the average man in the ranks. A municipality is poorly governed when its councilmen and administrative officers are not more intelligent that the average voter. In the direction of public, as well as private affairs, intelligent executive ability are factors of highest value.

In the sphere of municipal life lies the best opportunity rightly to teach and give practical effect to the principles of moral, physical and economic science.

The state is the creator and therefore the sovereign of municipal, political and industrial corporations. It creates such corporations in order to serve to the best advantage the public welfare. It is the duty of the state fully to advise its inhabitants regarding all particulars pertaining to their interests that such trusts are incorporated to serve.

An accounting, fully to show that a trust is properly administered, is a fundamental requirement for the satisfaction of the grantor and the beneficiaries, and the protection of the trustees. Such an accounting is indispensable as a basis for an appreciative under-

standing and mutual good faith. The state must possess a knowledge of the facts, if it is to control properly. Acquiring a knowledge of facts is not a legislative function, it is judicial.

An adequate knowledge of the facts cannot be acquired by occasional inquiries by committees of Councils or Legislatures. That facts may be established, it is necessary that uniform systems of accounting be adopted, that reports be required on fixed dates, covering similar subjects, for the same periods, in the same form. The system must be well devised, continuous, and obligatory as a condition of incorporation.

To guarantee impartiality of administration, the adopted system of accounting, and reports should be established as a judicial branch of government, where it will be least influenced by political or commercial considerations. Those intrusted with the executive work of the system of accounting and reports, should be selected for their fitness only. They should not be engaged in business, nor own an interest in any reporting corporation. They should be given long terms of service, and a salary equal to that of the best paid state officials. Under such conditions, real ability can be secured for the service of the state, and exceptional fitness can be acquired by experience.

That State control may be impartial and capable, the officers of the State must acquire competent and accurate knowledge of all details. This requirement renders it necessary that every set of accounts shall be kept by a uniform system, that similar items shall always be entered under specific headings, and that uniform reports shall be made covering the operations of the same period. * * * Such an analytic comparison made, year by year, between the municipalities of a State, and published for the information of their inhabitants, will show each municipality what restrictions or exactions must be removed, or what additional facilities must be granted, the better to secure industrial, commercial and social advantages equal to the best enjoyed by any other municipality. If any service rendered to a municipality is found to be not as good as, or more expensive, than a similar service rendered to another municipality, the reason why this is so could be learned from an impartial and competent source of information. * * * One of the greatest disadvantages from which industrial corporations now suffer, in dealing with citizens, municipal or State authorities, is the fact that they cannot secure proper credit for the truthfulness of their statements, because there is no impartial and competent State Court, properly commissioned and equipped, to

investigate and publish regular reports upon the subject.

If such system is adopted by each of the several States, the people of any municipality can know the position, on the scale of efficient management, occupied by their city when considered as a whole, or of any detail of its affairs, not only in comparison with the municipalities of their own State, but of the whole country. Such knowledge will not only indicate unerringly where improvement should be made, it will show where to learn how to make it. The municipality whose record is best, and the managers of the departments or corporations shown to have obtained the best results, will acquire by such publication, in addition to the local benefit, the benefit of having the fact become known throughout the civilized world. Those not up to the mark of highest excellence will gain the benefit of being able to show why the best obtained results cannot be realized under conditions by which they are controlled.

Instead of dividing the energies and resources of a municipality by competition between corporations and citizens, this system will unite them and use them in a competition between municipalities, States and nations, for excellence in industrial, commercial, and

social advantages. It will substitute competition between municipalities for competition between citizens. The standard of excellence will be the best services at the lowest cost to their users, and the lowest municipal taxation.

Government without the guidance of complete and accurate statistics is government by guessing, prejudice, and superstition. The science of statistics is to government what the science of navigation is to ocean travel. * * * All theories as to a proper course must submit to the arbitration of facts. Measured by ascertained facts, all theories must stand or fall. Those who honestly advocate and those who honestly oppose a policy should vie with each other in enacting measures designed to secure a perfect record of the operation and results of such policy. The judgments of truth are rendered only with a knowledge of the facts.

That the statistics of municipal, political and industrial corporations may be properly developed, it is necessary that the state shall establish and maintain, as a part of the judicial branch of its government, a Department of Municipal Administration, properly organized and equipped to cover all features of municipal affairs and the industries that supply the public

needs of municipalities and their inhabitants. * * * When the people discard government by guessing, prejudice or superstition, and adopt government by the science of facts, they will reach a point of development where the unintelligent will secure the guidance of the intelligent, and will thereby gain advantages that are beyond the power of their unaided ability.

[Extract from Proceedings.]

LEAGUE OF AMERICAN MUNICIPALITIES.

THE INVESTIGATION OF WATER, GAS AND ELECTRIC LIGHTING WORKS, PUBLIC AND PRIVATE, BY THE UNITED STATES DEPARTMENT OF LABOR.

RESOLUTIONS.

Adopted, October 1, 1897. Columbus, Ohio.

Whereas, This national conference of mayors and members of city councils has been informed that the United States department of labor has undertaken an investigation of water, gas and electric lighting works, and a clear outline of the methods, form and purposes of this investigation has been given by Mr. Allen Ripley Foote, in a paper read before this conference under the title of "Cost of service to users and taxpayers, a proper basis for comparisons between private

and municipal ownership of water, gas and electric lighting works"; and

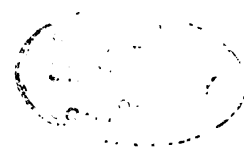
Whereas, Hon. Carroll D. Wright, United States commissioner of labor, has announced that the object of this investigation is to enable municipalities and the citizens thereof to determine whether there is any economic advantage to consumers in the municipal ownership and operation of water, gas and electric lighting works; and

Whereas, Such an investigation by the expert and impartial authority of the United States department of labor, which can reach every municipality in the United States, is sorely needed, and will have a vital and farreaching influence in correctly guiding public policy on this question of paramount inportance to all municipalities; be it

Resolved—First, That this conference cordially approves of the investigation as set forth in Mr. Foote's paper to be made for the purpose stated by Hon. Carroll D. Wright, United States commissioner of labor.

Second, That the delegates to this conference tender to the United States department of labor, and to its duly accredited agents, their co-operation in every practical way to facilitate this investigation in their respective municipalities, and to make the information collected complete and accurate.

Third, That it is the sense of this conference that the executive and legislative officers of all municipalities, and the managers of all public service corporations, should promptly and cordially do whatever may become necessary on their part to expedite the work of this investigation, to the end that through it statistics may be secured that will be accepted by all persons as reliable bases for comparisons.



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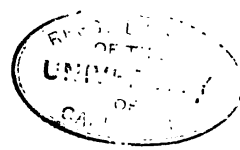

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Syracuse, N. Y.

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Yours sincerely,

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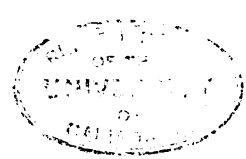

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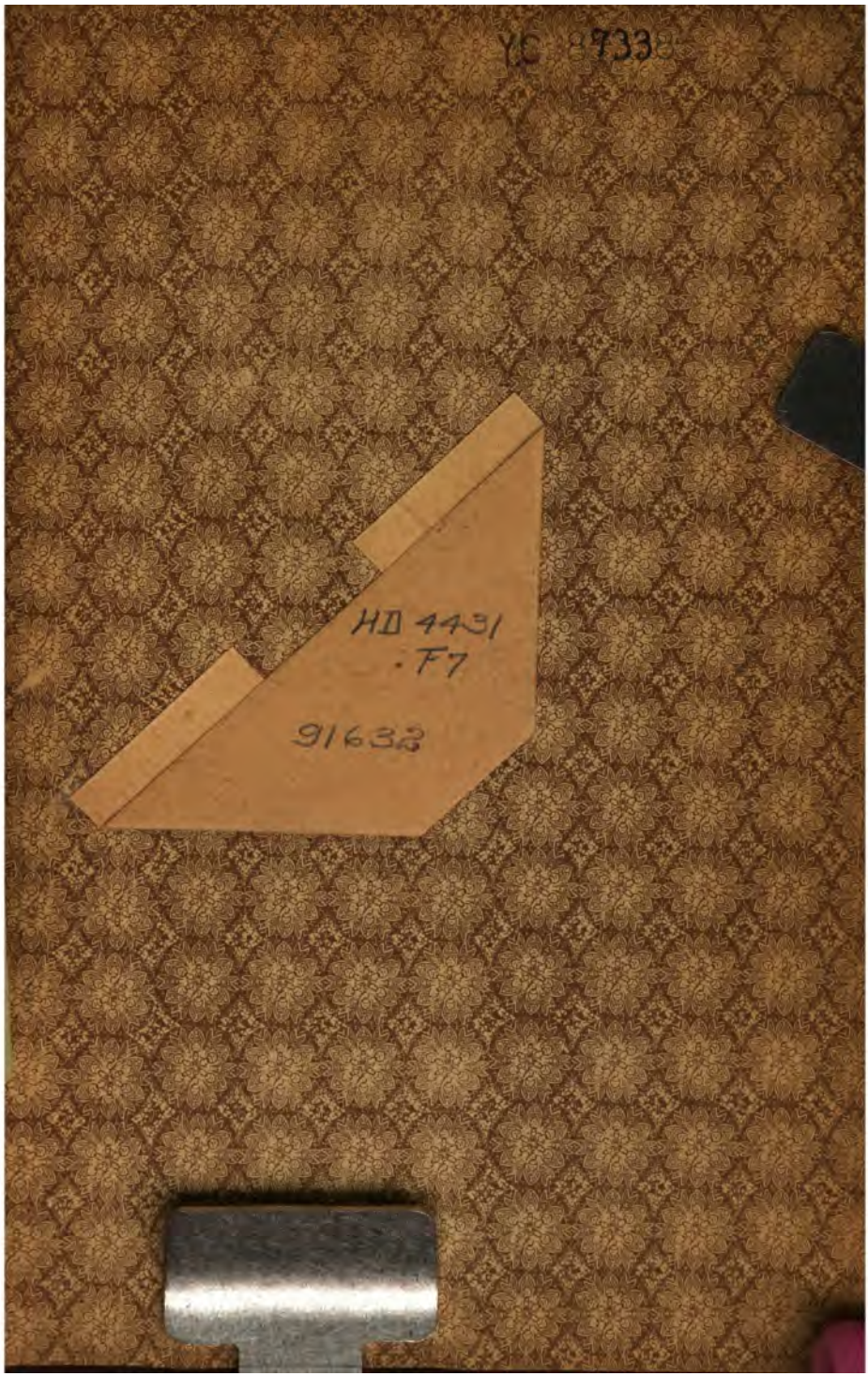
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